**Project** Insights

# Reforming Kazakhstan

## Progress, Challenges and Opportunities

OECD

GLOBAL RELATIONS
Eurasia

# Reforming Kazakhstan: Progress, Challenges and Opportunities

# Foreword

The Government of Kazakhstan and the Organisation of Economic Co-operation and Development (OECD) signed a Memorandum of Understanding on 22 January 2015 to embark on a Country Programme aimed at supporting Kazakhstan's national reforms across a number of policy areas.

This co-operation has resulted in Kazakhstan's adherence to various OECD legal instruments, increased participation in OECD bodies and projects, and improved exchange of information and data for better policy analysis. Kazakhstan has been working to adapt best practices and standards supported by the OECD and its members while sharing its own experiences with peers.

Kazakhstan has set itself ambitious targets for achieving strong, green and inclusive growth. It aims to become among the 30 most advanced countries in the world by mid-century, while shifting from a resource-intensive growth model to one that is cleaner, more innovative and more diversified. Reaching those goals will require further substantial reforms to improve public governance, to make the economy more open and competitive, to promote greener growth and to promote more equal access education, employment and economic opportunity.

This report reviews Kazakhstan's reform progress to date, drawing mainly on the work done under the Country Programme, and looks at the challenges and pathways ahead. It comes at a time when recommendations stemming from the Country Programme are being incorporated in important strategic policy documents in Kazakhstan and is intended to suggest possible directions both for further reforms and future OECD work with Kazakhstan. The OECD stands ready to work with Kazakhstan on the policies needed to deliver clean, inclusive and sustained growth over the decades to come.

# *Acknowledgements*

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# *Acronyms and abbreviations*

| | |
|---|---|
| **ACN** | Anti-Corruption Network for Eastern Europe and Central Asia |
| **ALMPs** | Active Labour Market Programmes |
| **BEPS** | Base Erosion and Profit-Shifting |
| **BEEPS** | Business Environment and Enterprise Performance Survey |
| **BLI** | Better Life Index |
| **BRM** | Business Road Map |
| **CES** | Common Economic Space |
| **CEDAW** | Convention on the Elimination of All Forms of Discrimination against Women |
| **CHP** | Combined Heat and Power Plants |
| **CIS** | Commonwealth of Independent States |
| **CoG** | Centre of Government |
| **CNG** | Compressed Natural Gas |
| **CSSP** | Committee on Statistics and Statistical Policy |
| **CT** | Complex Test |
| **DB** | Defined Benefit |
| **DC** | Defined-Contributions |
| **EBRD** | European Bank for Reconstruction and Development |
| **EDD** | Entrepreneurship Development Department |
| **ECP** | Eurasia Competitiveness Programme |
| **ECTS** | European Credit Transfer Scheme |
| **EEU** | Eurasian Economic Union |
| **EHEA** | European Higher Education Area |
| **EIA** | Environmental Impact Assessments |
| **EIB** | European Investment Bank |
| **EPL** | Employment Protection Legislation |
| **EQS** | Environmental Quality Standards |
| **EU** | European Union |
| **FDI** | Foreign Direct Investment |
| **GEC** | Green Economy Concept |
| **GEL** | Green Economic Law |
| **GDP** | Gross Domestic Product |
| **GERD** | Gross Expenditure on Research and Development |
| **GFA** | Global Forum on Agriculture |
| **GFTEOI** | Global Forum on Transparency and Exchange of Information for Tax Purposes |
| **GHG** | Greenhouse Gases |
| **GNI** | Gross National Income |
| **GRB** | Gender Responsive Budgeting |
| **HEI** | Higher Education Institution |
| **INDC** | Intended Nationally Determined Contributions |
| **IEA** | International Energy Agency |
| **ILO** | International Labour Organisation |
| **IMF** | International Monetary Fund |
| **KazETS** | Kazakhstan Emissions Trading System |
| **KCP** | Kazakhstan Country Programme |
| **LRT** | Light Railway Transit |
| **LPG** | Liquefied Petroleum Gas |

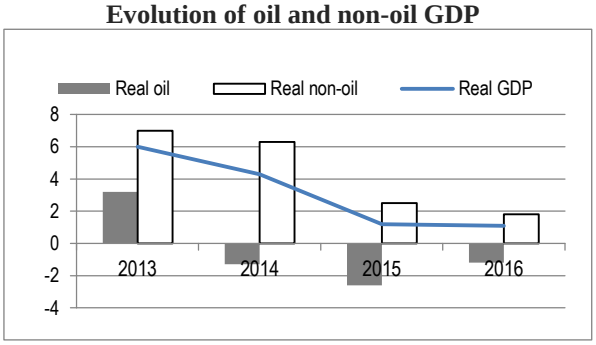
| | |
|---|---|
| **MAC** | Maximum Allowable Concentration |
| **MPWF** | Multi-purpose Water Infrastructure |
| **MSE** | Medical and Social Expert |
| **NBK** | National Bank of Kazakhstan |
| **NCESE** | National Centre for Educational Statistics and Evaluation |
| **NCP** | National Contact Point |
| **NEET** | Not in Employment, Education or Training |
| **NFRK** | National Fund of the Republic of Kazakhstan |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PPA** | Power Purchase Agreement |
| **PISA** | Programme for International Student Assessment |
| **PES** | Public Employment Service |
| **PRI** | Public Research Institute |
| **PPP** | Purchasing Power-Parity |
| **RRI** | Regulatory Restrictiveness Index |
| **SME** | Small and Medium-Sized Enterprises |
| **SWM** | Solid Waste Management |
| **SEZ** | Special Economic Zone |
| **SPAIID** | State Programme for Accelerated Industrial-Innovative Development |
| **SPED** | State Programme for Education Development |
| **SOE** | State-Owned Enterprise |
| **TFI** | Trade Facilitation Indicators |
| **TiVA** | Trade in Value-Added |
| **TSA** | Targeted Social Assistance |
| **TTO** | Technology Transfer Office |
| **UNT** | Unified National Test |
| **UN** | United Nations |
| **SEEA** | United Nations System of Environmental-economic Accounting |
| **STI** | Science, Technology and Innovation |
| **STRI** | Services Trade Restrictiveness Index |
| **VET** | Vocational Education and Training |
| **WP** | Work Permit |
| **WTO** | World Trade Organisation |

# *Executive summary*

- Growth remains dependent upon windfalls from extractive sectors, making the economy vulnerable to external shocks.
- Economic diversification is a priority for long-term, inclusive, and sustainable growth.
- A whole-of-government programme of reforms will help implement broad structural change in government and across a number of sectors.

### *Dependency on extractive sectors implies high vulnerability to external shocks.*

**Evolution of oil and non-oil GDP**




*Source*: (IMF, 2017[1]).

Windfalls from hydrocarbons and metals have largely driven growth in recent decades. The extractive sector accounts for nearly 30% of GDP, two-thirds of exports, three quarters of the stock of FDI and half of government revenues. Like other less-diversified economies, Kazakhstan is vulnerable to commodity-price fluctuations and other problems associated with resource-based development. To sustain the growth of living standards and productivity over the long term, Kazakhstan needs to implement wide-ranging structural reforms.

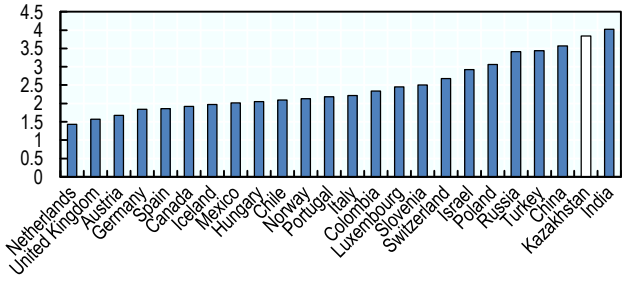
### *Better public governance is critical to diversifying economic activity and sustaining growth.*

An overly centralised bureaucratic structure, lack of transparency and problems with corruption undermine efforts to implement reform, as well as investor and citizen confidence. Kazakhstan needs to streamline central decision-making, devolve more authority to regions and localities, strengthen public sector integrity and broaden public participation in policy-making.

### *Economic policy can do more to promote private-sector development and innovation.*

State-owned enterprises continue to dominate the economy. Their privileged access to resources, markets, licenses, and finance leaves private firms at a disadvantage and undermines efforts to promote economic diversification, FDI and productivity growth. The SME sector, which could be an engine for job creation and the emergence of new sectors, is under-developed and held back by low productivity.

**Product Market Regulation State Control Index**




*Source*: (OECD, 2017[2]).

### *Kazakhstan aims for a model of growth that is greener...*

Kazakhstan is one of the world's most energy-intensive economies. It has long been dependent on unsustainable resource use patterns. It has outlined ambitious targets for "greening" the economy, yet much remains to be done to strengthen the regulatory framework addressing control of emissions, use of renewable resources and increasing energy efficiency measures, while also working to improve public utilities and infrastructure challenges. Improving framework conditions for private investment will help, but more targeted environmental measures will be needed, too.

### *...and more inclusive*

Despite Kazakhstan's impressive growth and a sharp drop in poverty and unemployment since the turn of the century, the country still faces significant challenges relating to equity in access to higher education and labour-market opportunities. Much more can be done to promote educational opportunity and labour-market inclusion, particularly for youth, the disabled and the elderly, and to improve gender equity.

## *Summary of recommendations*

### Supporting effective public governance

*Public governance*
- Better allocate roles and responsibilities to ensure efficient functioning of the government.
- Introduce new tools for risk management and policy evaluation.
- Encourage "public-facing" cultural change in the public sector.
- Strengthen local governance capacity to improve accountability and resource management.
- Allow local government greater fiscal flexibility.
- Allow direct elections of local representatives.
- Build stronger advisory functions at the central level to support local public institutions.

*Public sector integrity*
- Reinforce legal and institutional frameworks supporting integrity, and enable their enforcement.
- Promote greater transparency and include all non-governmental stakeholders in fighting corruption.

*Open government*
- Adopt a clear definition of open government.
- Ensure proper implementation of the access to information law.
- Further improve e-governance with increased mobile and user access to information and tools.
- Consult with all stakeholders at all levels to ensure better buy-in and ownership of policies.

### Building a competitive and open economy

*International investment*
- Scale up investment-related policies to demonstrate further progress on tackling bribery, corruption and favouritism.
- Improve regime for foreign direct investment (FDI) to address National Treatment exceptions.
- Improve hiring procedures for foreign personnel, regulations in mining, and local content policy.
- Further strengthen capacity of the newly established NCP.

*SOEs, privatisation and competition*
- Implement the Comprehensive Privatisation Plan for 2016-2020, drawing on international best standards.
- Align use of rules and regulations of state ownership with internationally agreed good practices.
- Implement competition legislation more effectively.

*SMEs and entrepreneurship*
- Build capacity in the policy delivery structures for SME support.
- Scale up entrepreneurship education, business development services and support for SME access to finance.
- Align SME policies with regional investment and education policies.

*Science, technology and innovation*
- Improve framework conditions and governance of science, technology and innovation through a whole-of-country approach.
- Increase public funding for research at universities and public research institutes (PRIs).
- Evaluate PRIs to stimulate a healthy mix of funding and reallocation of funds based on performance.
- Enhance knowledge transfer between researchers and businesses.
- Ensure proper function of R&D requirements of the innovation scheme for subsoil users.

### Strengthening higher education, employment and social inclusion

*Higher education*
- Allow education institutions more academic autonomy to engage in partnerships and joint programmes.
- Emphasise a qualifications framework underpinning linkages between universities and employers.
- Put in place quality assurance processes that facilitate continuous improvement at both the institutional and system levels.
- Allow greater curriculum flexibility to aid student mobility and internationalisation. Increase public investment in higher education.

*Labour markets and social inclusion*
- Build indicators linking economic climate and labour force needs.
- Improve the quality of jobs by introducing a more differentiated minimum-wage structure and increasing incentives.
- Ensure that lifelong learning policies encourage upgrading of skills, with incentives to firms, older workers, and the disabled.
- Strengthen anti-discrimination laws.

*Gender equality*
- Legislate and monitor wage equality and representation following the OECD Council Recommendation on Gender Equality.
- Strengthen women's participation in managerial roles.
- Promote mainstreaming of gender issues in policy-making.

### Fostering green growth

*Addressing diverse challenges*
- Revise environmental quality standards, balancing what is environmentally desirable and technically feasible.
- Shift environmental requirements away from penalising noncompliance to encouraging pollution prevention and control.
- Maximise energy efficiency gains with minimum standards, performance requirements and other demand-side policies.

*Increasing investments for green growth*
- Ensure a stable and transparent investment environment, and increase incentives for investment.
- Support technological and knowledge-based sharing and project development.

*Modernising infrastructure and public utilities*
- Adapt modern technologies and international standards.
- Facilitate introduction of market-based tariffs for public utilities and private sector investments.

*Monitoring and promotion of policies*
- Strengthen additional data requirements to support strategic planning and monitoring.
- Closely co-operate with a wider array of government stakeholders as users or contributors to the data.

*Transitioning to a green economy*
- Update the 2013 GEC and further streamline future priorities.

## Kazakhstan in figures

| Land, people and government | | | |
|---|---|---|---|
| Land area (1 000 km²) | | 2 724.9 | |
| Population (1 000) | | 17 797.03 | |
| Form of government | | Constitutional republic | |
| Last presidential elections | | April 2015 | |
| **Competitive economy** | | | |
| GDP, current prices (USD billion) | 184.39 | *GDP share by sectors, value added (%)* | |
| GDP growth (annual %) | 1 | Agriculture (including forestry, hunting, fishing, cultivation of crops and livestock production) | 4.83 |
| GDP per capita, current prices (USD 1 000) | 7.51 | Industry (including mining, manufacturing, construction, electricity, gas supply) | 33.52 |
| FDI net inflows (% of GDP, 2015) | 3.57 | Services (including wholesale and retail trade, transport, education, health care, real estate services) | 61.65 |
| Inflation rate, consumer prices (annual %, 2015) | 6.6 | *In % of GDP* | |
| Official exchange rate, period average (KZT per USD) | 342.2 | Exports of goods and services | 32.64 |
| Merchandise trade (% of GDP) | 46.4 | Imports of goods and services | 29.16 |
| *Main exports (% of total merchandise trade)* | | *Main imports (% of total merchandise trade)* | |
| Fuel exports | 60.74 | Manufacturing imports | 77.83 |
| Manufacturing exports | 18.42 | Food imports | 11.72 |
| Ores and metals exports | 14.77 | Fuel imports | 6.10 |
| **Green growth** | | | |
| Energy intensity TPES/GDP PPP (toe/1 000 2010 USD, 2014) | | 0.2 | |
| Total Primary Energy Supply TPES (Mtoe, 2014) | | 76.67 | |
| Renewable energy (% of primary energy supply, 2014) | | 0.96 | |
| $CO_2$ emissions (tonnes per capita, 2014) | | 12.94 | |
| Energy sector contribution to GHG emissions (% of total emissions, 2015) | | 78.4% | |
| Estimated water losses (% of overall water supply, 2015) | | 22.6% | |
| **Education, employment and social inclusion** | | | |
| GINI coefficient, % (2014) | | 27.8 | |
| Labour force (1 000) | | 9244.53 | |
| Unemployment rate (% of total labour force) | | 5.23 | |
| Labour force, female (% of total labour force) | | 49 | |
| Inactivity rate, female (%, 2015) | | 34 | |
| Inactivity rate, elderly workers (age 55-64,%, 2015) | | 42,4 | |
| Primary education enrolment rates (% net) | | 87.38 | |
| Secondary education enrolment rates (% net) | | 97.59 | |
| Tertiary education enrolment rates (% gross) | | 46.26 | |

*Note*: All data provided is for 2016, if not otherwise stated in brackets.
*Sources*: (OECD, 2017[3]), (OECD, 2017[4]), (World Bank, 2017[5]), (OECD, 2016[6]), (IEA, 2014[7]).

# CHAPTER 1

# Introduction

*Kazakhstan aims to become one of the top 30 global economies by 2050. While the country has made progress towards this target, a number of important structural challenges will need to be addressed if Kazakhstan is to achieve the levels of growth that will allow living standards in the country to converge with those of more developed Western economies. Of particular importance will be transitioning the economy away from an overreliance on the export of hydrocarbons and carrying out a thorough reform of public governance in the country. This chapter provides an overview of recent performance and an initial assessment of the reform challenges ahead, which are then treated in detail in the chapters that follow.*

# 1. INTRODUCTION

The main economic challenge facing Kazakhstan is the achievement of long-term, sustainable growth at rates high enough to bring about relatively rapid convergence between the living standards of its citizens and those of the more developed Western economies. This will require important structural changes, because, as will be seen, there is good reason to believe that the model of growth observed over the last two decades will not be sufficient to sustain Kazakhstan's convergence trajectory over the medium-to-long term. Establishing conditions for the emergence of a new growth model is therefore a central priority for Kazakhstan's leaders and primary focus of the OECD co-operation with the country, which is reviewed in the chapters that follow.

Kazakhstan's economy is highly dependent on the export of a limited range of natural resources, chiefly hydrocarbons and metals, and it shares many of the characteristics of other "less-diversified economies". Resource dependence confronts Kazakhstan's policy makers with a particular set of macroeconomic challenges, including vulnerability to external shocks, "Dutch disease" and the various institutional pathologies that are often associated with resource-dependent development. Resource dependence also looms large in any discussion of structural reforms, as resource-dependent development can complicate efforts to build new institutions. At the same time, the economic legacies of communism are still evident throughout Kazakhstan. The country has made tremendous progress in creating market institutions, but many of the challenges of transition remain relevant. These include the creation of efficient markets and secure property rights, the reduction of the state's still dominant role in many sectors, and the completion of reforms in fields where Soviet-era structures and practices are largely still in place. The chapters to come thus address both the challenges of resource-dependent development and the unfinished business of the post-communist transition in an effort to identify the policies most likely to encourage sustained growth in Kazakhstan.

This chapter begins with an analysis of Kazakhstan's recent socio-economic performance, with a view to understanding its sources and the prospects for its continuation. It then highlights the most important challenges facing Kazakhstan's policy makers, as they seek to create a framework for strong, inclusive and sustainable growth. Chapter 2 turns to the challenges of public governance and the reforms needed to build more effective policy formulation and implementation capacities. Chapter 3 considers structural reforms that are critical to creating a more open, efficient and competitive market economy. Chapter 4 then turns to the ways in which policy makers can make Kazakhstan's growth "greener". Finally, Chapter 5 addresses the potential contribution of education and labour market policies in making growth more inclusive, ensuring that all Kazakhstan's citizens are able to benefit from its prosperity. In each instance, the tasks facing Kazakhstan's reformers are complicated by both the legacy of the communist era and the consequences of

Kazakhstan's resource-based economic structure, two realities that form the backdrop for a great deal of its reform agenda.

## 1.1. Economic performance

***Kazakhstan's market economy was born in crisis conditions***

Kazakhstan emerged as an independent state and embarked on its post-communist transformation in extraordinarily difficult circumstances. The Soviet economy from which it emerged was already in free-fall – Soviet GDP fell by somewhere between 8 and 17% in real terms in 1991[1] – and the newly independent Kazakhstan faced enormous challenges not only of economic reform but of state-building in a much broader sense. Chronic shortages of domestic capital, the destruction of pre-existing trade networks and the difficulty of adapting Soviet enterprises and institutions to market conditions plunged Kazakhstan and its neighbours into a severe recession. This made deep and lasting economic reform more urgent but also more difficult; indeed transforming the economic system in such an environment was rather like rebuilding a ship in the midst of stormy seas.

Moreover, the newly independent Kazakhstan emerged at a time when the global economy itself was undergoing profound changes. The period since 1991 has been one of rapidly intensifying globalisation, involving financial and economic integration and an unprecedented development of global value chains. The Internet and other technological changes altered the way business was done, while the creation of the World Trade Organization, the emergence of climate change as a global problem and the rapid rise of China and other emerging economies changed the way the world economy functioned. Kazakhstan and its neighbours thus had to make their way in a rapidly changing global context.

To be sure, many of these developments brought benefits to Kazakhstan. Global growth accelerated, particularly in emerging economies, lifting hundreds of millions out of poverty and contributing to big improvements in human health and life expectancy. For Kazakhstan, this acceleration implied a surge in demand for its primary export commodities from the end of the 1990s, underpinning more than a decade of strong growth. The rise of China, in particular, offered – and continues to offer – important opportunities to Kazakhstan. At the same time, the last 25 years have also witnessed several major financial crises, and the effects of the global crisis of 2008-09 are still being felt. This has served as a reminder that greater integration in the world economy is not without its risks.

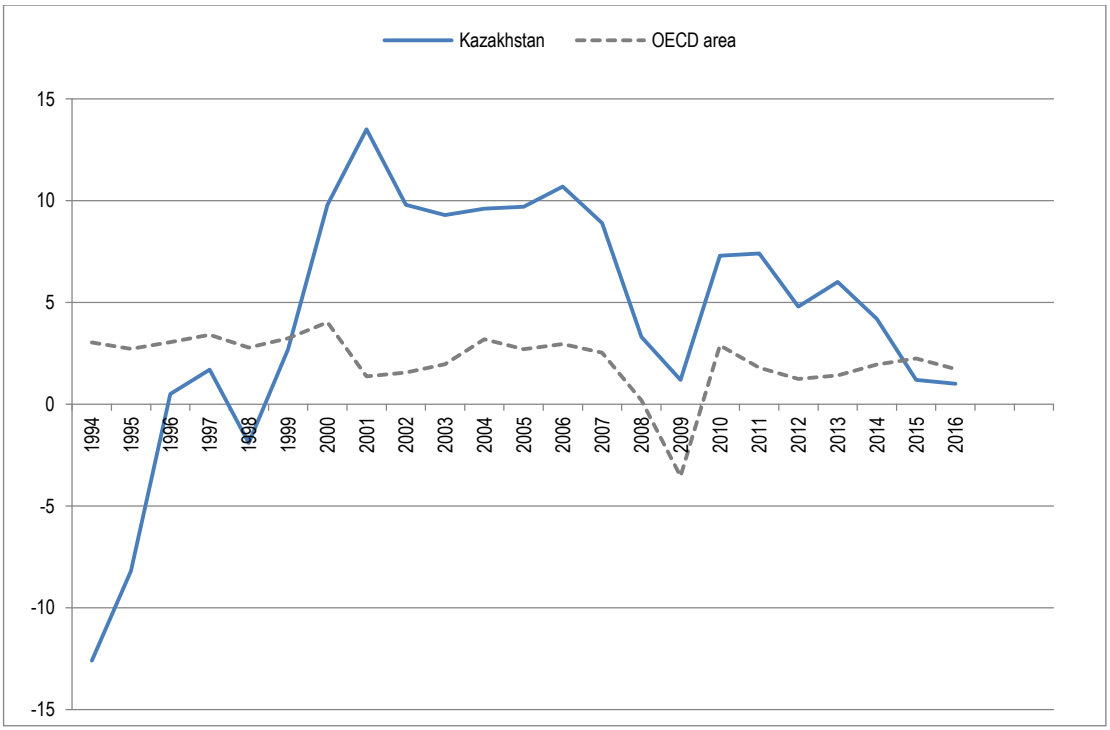
***Economic growth has been impressive since the end of the 1990s***

Like its post-communist peers, Kazakhstan experienced a severe contraction in the early stages of the market transition. During 1992-1995, real GDP fell by an estimated 31%, inflation surged into triple and quadruple digits (annual consumer price inflation did not fall below 100% until 1996), and the labour market witnessed the destruction of 1.6 million jobs.[2] A weak recovery began in 1996-97, but the impact of the Asian financial crisis of 1997 and the Russian crisis the following year helped to tip the economy back into recession. Growth resumed weakly in 1999 and then began to surge in 2000 as oil prices recovered (Figure 1.1). From 2000, growth accelerated sharply, reaching an average of 9.4% during 2000-08. Growth slowed sharply in 2009 before rebounding somewhat until the sharp drop in commodity prices in 2014-15, which led to a slowdown, with growth falling to 1% in 2016.

There were indications of a recovery in the first half of 2017, as growth picked up to 4.2% year-on-year, bolstered by increased oil export volumes and a rise in the price of Urals crude from USD 38.25 in January-June 2016 to USD 50.41 in the first half of 2017.

**Figure 1.1. Growth performance, 1994-2016**

Real GDP growth (%) annual



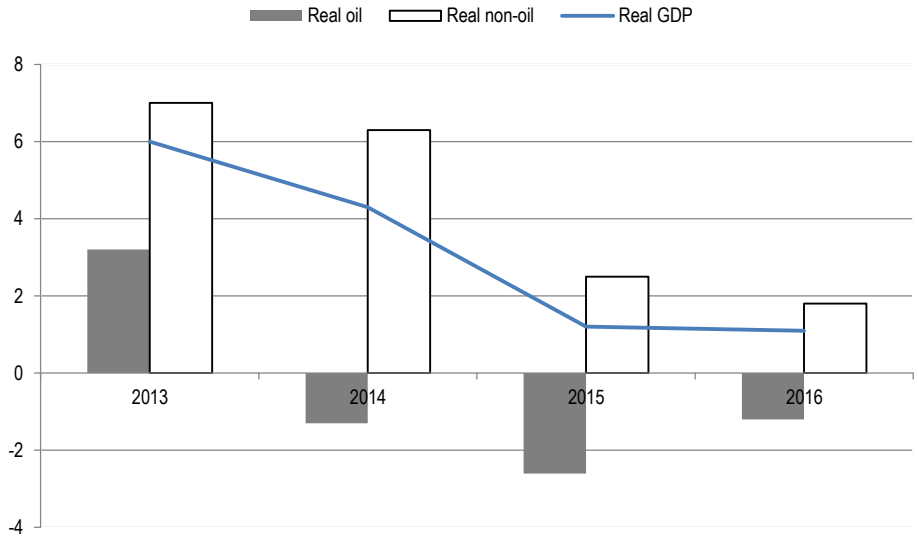

*Sources*: (World Bank, 2017[5]), (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

As will be seen, Kazakhstan's growth was and remains highly dependent on oil and gas prices, and – to a lesser degree – on metals prices, which often move in tandem with them. Yet this is not to suggest that Kazakhstan has simply been lucky with its resource endowments and the commodity super-cycle of the early 2000s. On the contrary, the recovery that began at the end of the 1990s owed much to the policy and legislative changes initiated earlier in the decade, particularly in creating the conditions to attract badly needed foreign investment to the oil sector. This was a critical post-independence priority, in view of the relatively underdeveloped state of its most important deposits, the technical problems posed by some of those deposits and the absence of any other sector capable of generating substantial foreign exchange earnings quickly (Ahrend and Tompson, 2006[9]). Kazakhstan has indeed been lucky for much of the last 20 years, but it has also worked to make the most of its luck – many other hydrocarbon exporters have been far less successful in profiting from favourable international prices or in preparing for negative price shocks.

### *Growth has been driven primarily by exports of hydrocarbons and minerals*

Since the country began to recover from the transition recession of the 1990s, Kazakhstan's growth has been driven mainly by its extractives sector, particularly oil and gas. Oil production rose from 589 000 barrels a day at the end of the Soviet period to more than 1.7 million per day in 2013-14, raising Kazakhstan into the ranks of the world's top ten oil exporters. Natural gas production dropped from a late-Soviet level of around 5.8 billion cubic metres to just 3.0 billion cubic metres in the mid-1990s, before bouncing back to around 12.5 billion in 2015. The *direct* contribution of oil and gas to growth was probably greatest in the decade or so to 2009, when output was growing fastest: by 2010, the extractives sector, including both hydrocarbons and hard minerals, accounted for almost 20% of GDP, up from around 8% in 1998. Yet in volume terms, the growth of oil production slowed from the mid-2000s and in 2014-15, it turned negative as oil prices fell sharply. However, windfall revenues generated by high commodity prices over much of the period to 2014 fuelled growth in other sectors, and the fall in prices had a similar, but negative, knock-on effect on the growth of the non-oil economy (Figure 1.2). OECD (2016[6]) estimates that, taking account of such indirect impacts, hydrocarbons and metals account for as much as 30% of GDP, 70% of exports and up to half of government revenues.

**Figure 1.2. Evolution of oil and non-oil GDP**

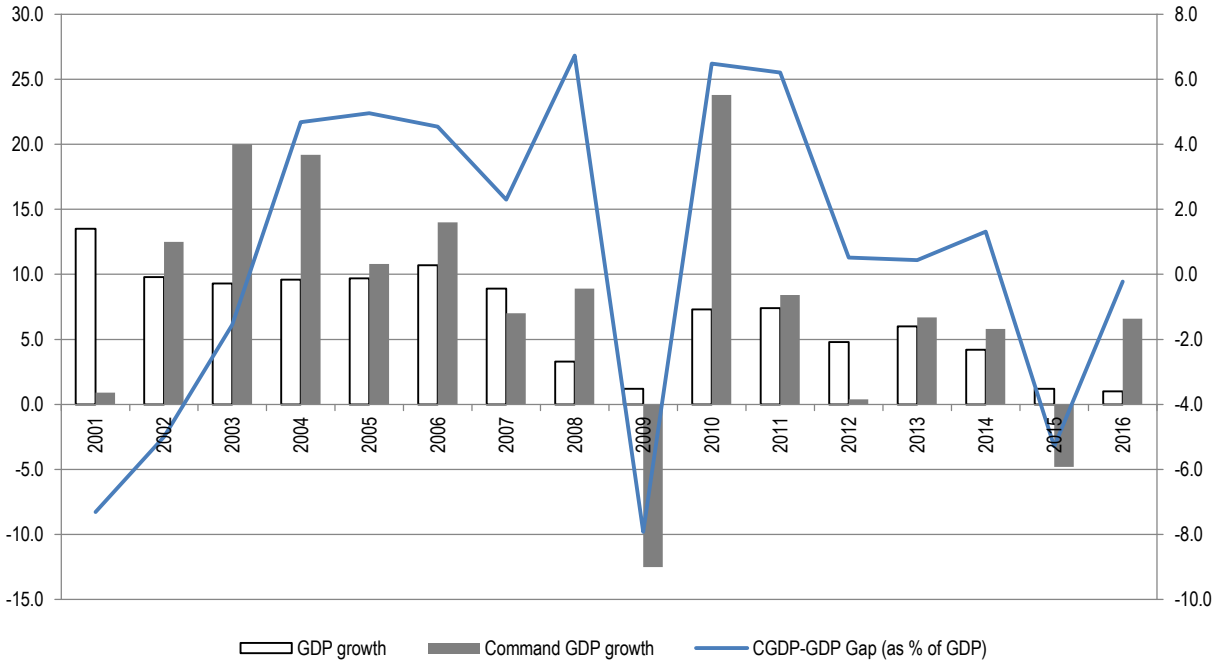



*Source*: (IMF, 2017[1]).

In order to appreciate the sometimes dramatic impact of recent terms-of-trade shifts on real incomes in Kazakhstan, it is useful to investigate more than the conventional measure of real GDP. Volume GDP underestimates the increase in real incomes and purchasing power that may be induced by, for example, a fall in import prices (Kohli, 2003[10]). One way to correct this is provided by the so-called "command GDP" indicator, which adjusts the calculation of GDP to reflect the impact of changes in the terms of trade on the aggregate purchasing power of the economy. In effect, it is a real income indicator that reflects both the *magnitude* of terms-of-trade shifts and the economy's *exposure* to international trade.[3]

The calculation of command GDP provides a stark illustration of just how staggering the terms-of-trade shocks of the last few years have been, with command GDP diverging from conventional GDP by as much as 8% of GDP in some years (Figure 1.3).[4] As can be seen, this helps account for the severity of the recent slowdown: while in volume terms, the country narrowly avoided a contraction of GDP in 2015-16, the sharp decline in the terms of trade made for a sharper impact on aggregate income. It also had a pronounced impact on public spending: fiscal revenues from oil fell by around 35% in tenge terms,[5] and the overall fiscal balance swung from an average surplus of 4.5% of GDP in 2011-13 to a deficit of 5% in 2015-16 (IMF, 2017[1]).

**Figure 1.3. GDP, command GDP and the terms of trade**




*Source*: (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

The volatility seen above is directly linked to the commodity concentration of exports: more diversified economies rarely experience such sharp swings in the terms of trade. For example, Kazakhstan's terms of trade have changed, upwards or downwards, by more than 10% in eight of the last 16 years. By contrast, only one G7 country, in one year, has experienced a double-digit terms-of-trade shift over that period.[6] Indeed, the United States has not experienced a double-digit change in the terms of trade since the oil-price collapse of 1986. This is largely because its export basket is so much more diversified and because the prices of the more sophisticated goods that it exports tend to be less volatile. This is a consideration for policy makers concerned with Kazakhstan's diversification agenda. That said, the relatively small size of the country means that it is likely to remain more exposed to international trade than larger economies tend to be, and also that its export basket will remain relatively concentrated – it is harder for small economies to achieve critical mass in a wide range of activities. Thus, while more diversified and sophisticated exports can

help reduce external vulnerability, Kazakhstan will need to continue using macroeconomic and other levers to manage such volatility.

To a substantial extent, of course, it already does so: the domestic economy has been partially insulated from the shocks of recent years by the government's discipline in saving a large portion of resource revenues in the National Fund of the Republic of Kazakhstan (NFRK) (Box 1.1). A substantial portion of the export windfalls arising from very high commodity prices has been sterilised through the accumulation of fiscal reserves, which in turn allowed the authorities to cushion the impact of falling prices when shifts in the terms of trade were adverse. To that extent, the volatility experienced by the domestic economy was rather less than implied by Figure 1.3. However, sterilisation of hydrocarbon windfalls was only partial, implying that the economy nevertheless experienced very substantial impulses from the terms of trade shifts observed over the period.

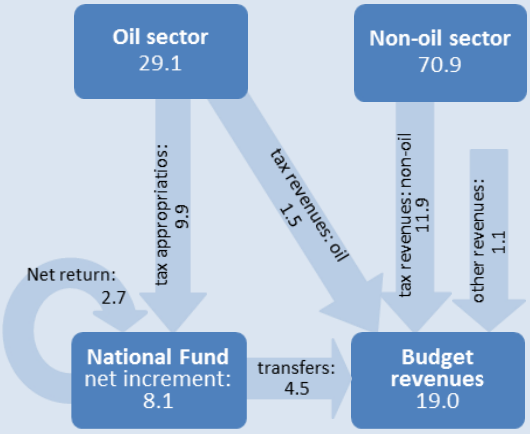
Moreover, there has been a drift towards greater reliance on oil revenues to finance current spending since the global crisis of 2009. During the boom years that preceded that crisis, the authorities in Kazakhstan kept the non-oil deficit below about 5% of GDP. This allowed the government to act in a strongly counter-cyclical manner when the crisis hit, but it has proved difficult to bring the non-oil deficit back to pre-crisis levels. The negative oil-price shock of 2014 led to a widening of the non-oil deficit, which reached 12.9% of GDP, as the government moved to counter the shock and avoid a recession (IMF, 2017[1]). While this effort was broadly successful in the short term, the path back to fiscal sustainability will not be easy. The authorities are well aware of the challenge, and in 2016, they began an extremely difficult fiscal consolidation, bringing the non-oil deficit down by 4.6% of GDP and adopting a new rule for the NFRK (Box 1.1). Successful implementation of this concept will be critical in ensuring fiscal sustainability and thus financial market access on favourable terms. Over time, the new rule will allow the accumulation of financial assets, both to buffer future commodity-price shocks and to help Kazakhstan prepare for a post-hydrocarbon future.

### Box 1.1 The National Fund of the Republic of Kazakhstan

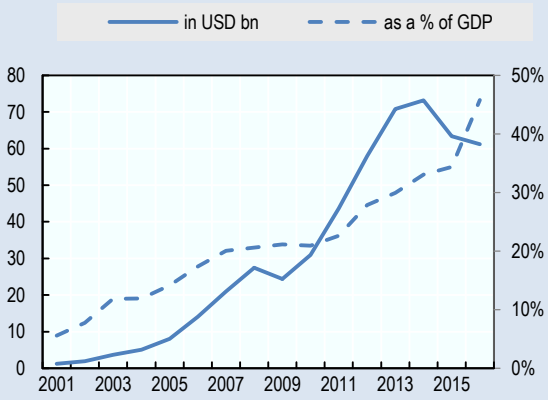
Over a third of the added value generated by the oil and gas sector flows to the public sector in the form of taxes and duties (Figure 1.4). The bulk of these oil-related revenues is directly transferred to the National Fund of the Republic of Kazakhstan (NFRK), managed by the National Bank of Kazakhstan (NBK). This fund was established in 2000 with a goal of reducing the government's dependence on resource revenues, to shield the economy from unfavourable external shocks and to accumulate savings for future generations (OECD, 2015). Assets of the National Fund (NF) have increased rapidly thanks to high transfers and investment returns. The vast majority of assets are denominated in foreign currencies, and the portfolio is managed by foreign companies.

**Figure 1.4. The National Fund of the Republic of Kazakhstan**

**A. Budget related flows in % of GDP, average 2012-14**




**B. National Fund assets**




*Note*: Assets of the NFRK as a share of GDP increased by 4.5 percentage points per annum during 2012-14, reflecting annual increments of 8.1% of GDP and the mathematical impact of GDP growth on the stock of assets.
*Source*: (IMF, 2017[11]), (OECD, 2016[6]), based on data from the Ministry of National Economy.

Annual guaranteed transfers from the NFRK to the budget of the central government amount to USD 8 billion, plus or minus 15%, depending on the economic cycle. In addition, targeted transfers can be made by presidential decree for socially significant projects if alternative funding sources are insufficient. For example, during 2014-15, targeted transfers of USD 5.4 billion were made, mainly to support the recovery of the banking sector, to provide bank lending to SMEs and to finance infrastructure projects. For the period 2015-17, annual transfers of USD 3 billion will support sustainable economic growth and employment within the new State Programme of Infrastructure Development (Nurly Zhol).

**The National Fund of the Republic of Kazakhstan (cont'd)**

Transfers from the NF are possible as long as its assets remain above 30% of GDP at the end of each financial year and annual expenditures on public debt service do not exceed 4.5% of assets managed. The overall framework ensures steady budget support, while providing sufficient flexibility to deal with transitory shocks to the economy, and the USD 8 billion rule governing transfers from the NFRK to the budget is consistent with the permanent income approach (World Bank, 2013[11]). Of all oil-related revenues, only the proceeds of the oil export customs duty go directly to the state budget, accounting for some 8% of total budget revenues during 2012-14. Directing most oil-related revenues to the NF shields the government budget from developments in the oil and gas sector. As a result, the fiscal balance has been very stable during the last years, hovering between 2% and 3% of GDP. The stability also reflects prudent growth assumptions at the planning stage and the possibility of extra-budgetary public spending.

In response to the drop in commodity prices observed in 2014-15, the authorities introduced important changes to the NFRK concept. The guaranteed transfer will be in tenge and will decline by 2020 to KZT 2 trillion (around USD 6 billion at mid-2017 exchange rates). This will reduce oil revenue dependence and provide a hedge against exchange-rate movements. The minimum balance is to be 30% of GDP, and the budget should target a non-oil deficit of 7% of GDP by 2020 and 6% by 2025. Acquisition of domestic securities will no longer be allowed, although targeted transfers may take place.

*Source:* (IMF, 2017[1]), (OECD, 2016[6]).

### *Structural change has been substantial*

Since independence, Kazakhstan has undergone an important structural shift away from agriculture and towards the growth of extractive industries. The share of industry in value added rose from 20% in 1990 to a peak of 33% in 2010, driven largely by the growth of the oil, gas and mining sectors. That said, their share in total GDP has fallen back substantially since the turn of the decade, reflecting weaker price dynamics, slower output growth and slower development of new projects. Preliminary estimates from the Statistical Committee of the Republic of Kazakhstan suggest that the extractives share of GDP fell back to 12.9% in 2016, while the services share reached 57.8%, still somewhat below the 65-70% share typical of the major OECD economies. The relative weight of manufacturing, by contrast, has been stable at around 10-11% for almost a decade.[7]

Employment has also shifted out of agriculture: the agricultural sector's share of total employment fell by almost half, from 35% at the turn of the century to an estimated 18% in 2015, while the employment share of services rose from just under half to around 61.4% over the same period. Employment in construction also rose, from 4% to 8%. However, as will be seen, there is still considerable scope for productivity-enhancing reallocation of labour.

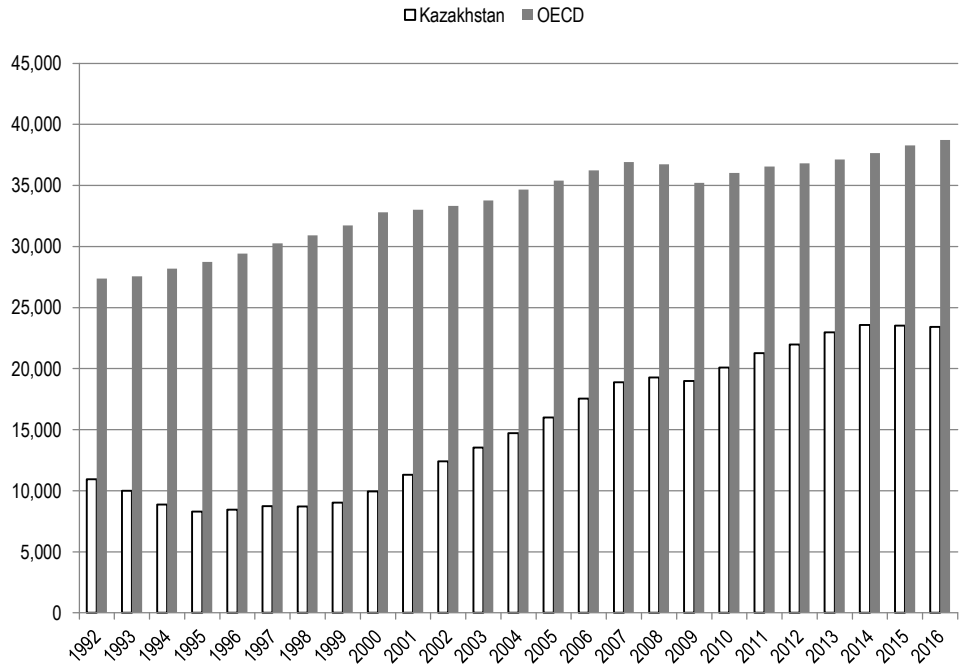
### *Living standards and well-being have improved*

Economic growth since the end of the 1990s has brought substantial benefits to the great mass of households in Kazakhstan. Unemployment fell steadily and real wages doubled during 1999-2014 (OECD, 2017[4]). The nationally defined poverty rate[8] fell from almost half at the turn of the century to 2.7% in 2015; the share of the population below the World Bank's USD 3.10 a day (2011 PPP) threshold has fallen even more dramatically, from almost one-third in 2001 to an estimated 0.26% in 2013. Since 1995, Kazakhstan's score on the United Nations Human Development Index has been rising steadily, at an impressive rate of almost 1% per year. Life expectancy at birth has risen by just under nine years since 1996.

Not surprisingly, growth has also contributed to relatively rapid convergence with the advanced economies, although there is still some way still to go: measured in purchasing-power-parity (PPP) terms, GDP per capita rose from less than 29% of the OECD level in the late 1990s to more than 60% in 2013-16 (Figure 1.5). While the convergence process stalled somewhat with the growth slowdown observed in 2015-16, there is good reason to expect that it will resume, even if at more modest rates.

**Figure 1.5. GDP per capita: Kazakhstan and the OECD**

In PPP terms, constant 2011 international USD




*Source*: (World Bank, 2017[5]).

The benefits of growth, moreover, have been widely shared: income inequality in Kazakhstan is the lowest in the post-Soviet region: the so-called "decile ratio" – the ratio of income received by the top 10% of the population to that received by the bottom 10% – fell by almost half between 2000 and 2013, and the Gini coefficient has likewise declined, falling from 35.4 at the turn of the century to an estimated 26.3

in 2013. This is a relatively low level of inequality by OECD standards[9] and is even more remarkable in a fast-growing emerging economy – both the trend and the level set Kazakhstan apart from its regional peers. As will be seen, important challenges remain when it comes to ensuring that growth *remains* inclusive: these include sharp inter-regional income disparities, a significant urban-rural divide and barriers to labour-market success among certain groups. Nonetheless, the evidence leaves little doubt that recent growth has helped reduce both poverty and inequality substantially.

The period since independence has also been of significant social transformation. During the transition period, the population fell from 16.5 million in 1991 to 14.9 million in 2000, largely as a result of the emigration of primarily ethnic Russians and other Slavs, as well as Germans. At the same time, Kazakhstan welcomed significant numbers of ethnic Kazakh immigrants, but this only partially offset the impact of out-migration. Moreover, the total fertility ratio plummeted, falling from 3.16 in 1987 to just 1.76 in 1999. During the 2000s, the downward trend in fertility was reversed, and the rate has stabilised at around 2.6–2.7, well below pre-independence levels but substantially above the replacement rate.

***Kazakhstan has pursued, and benefited from, international integration***

Since independence, the authorities have pursued integration into the international economy. The initial priority was to attract foreign investment into the country's oil and gas sector. Kazakhstan's considerable hydrocarbon resources were well known in Soviet times, but the Soviet authorities were slow to develop them, giving priority instead to the development of Western Siberia. Soviet-era production peaked at 589 000 barrels per day in 1991, far below Kazakhstan's production potential. However, the newly independent country badly needed foreign capital and expertise to realise the potential for far greater production, given the relatively under-developed state of its most important deposits, and the technical problems posed by some of those deposits.[10] Given the severity of the immediate post-Soviet economic crisis, the immaturity of the oil industry and the lack of any other sector capable of generating substantial foreign exchange earnings quickly, the authorities deliberately tried to secure deals with foreign investors to develop the country's largest fields first (Ahrend and Tompson, 2006[9]).

Contract sanctity and stability were central to Kazakhstan's drive to attract foreign investors, who were protected from subsequent changes in taxation or other policies during the life of the contract. Despite some conflicts between the state and investors in the 2000s over these very issues, Kazakhstan's approach was overall extremely successful in attracting Western capital to the oil sector. Indeed, the country became the largest recipient of FDI per capita in the Commonwealth of Independent States (CIS). Over the two decades to 2014, inward foreign investment inflows averaged 8% of GDP (World Bank, 2017[5]). Moreover, while the primary sector remained the most important destination for such inflows, Kazakhstan also began to attract more investment to other sectors. This required not merely a readiness to conclude specific deals with large-scale investors, as was done for the major oil and gas projects, but a broad-based effort to improve framework conditions for *all* investors. In 2002, Kazakhstan became the first former Soviet state to receive an investment grade rating, and successive OECD analyses have traced the steady improvement in its investment policies over time. According to the FDI Regulatory Restrictiveness Index, Kazakhstan is still more restrictive than most OECD countries but it is

approaching the OECD average. Progress to date in this area, as well as the challenges ahead, are examined in greater detail in Chapter 3.

Kazakhstan has also taken steps towards institutional integration in the global economy. Like the other post-communist economies, Kazakhstan quickly joined the International Monetary Fund (IMF) and the World Bank. However, in terms of institutional and policy commitments, entry into the World Trade Organization (WTO) was probably the most significant step. WTO membership is an important step in international integration, as it ensures market access for a wide range of goods and services and provides a framework for negotiating trade agreements. It is also a very strong commitment for a country, because of its dispute resolution process, which aims at enforcing adherence to WTO agreements. The accession process involved substantial policy reform. Indeed, the real impact of WTO accession probably comes not from tariff adjustments but from the deeper institutional changes that membership necessitates (Engvall J., 2015[12]).

Kazakhstan's intensifying trade integration can also be seen in its trade growth: in real terms, both imports and exports have more than doubled since 1994, and the ratio of external trade (imports and exports) to GDP roughly doubled between 1994 and 2012, though it has since fallen again somewhat, largely owing to an external environment less favourable to Kazakhstan's main exports.

More recently, the OECD has become a central focus of Kazakhstan's institutional integration. While Kazakhstan has been co-operating with the OECD since the early 1990s, its efforts to strengthen its co-operation intensified, particularly after 2008, not least owing to its growing involvement in the OECD Eurasia Competitiveness Programme (ECP). From 2012 to 2016, Kazakhstan co-chaired the ECP's Central Asia Initiative. It has also joined the Global Forum on Transparency and Exchange of Information for Tax Purposes, became a Participant in the Committee on Industry, Innovation and Entrepreneurship in 2013, a member of the Development Centre in 2015 and an Associate in the Base Erosion and Profit-Shifting (BEPS) Project in 2016. These latter developments took place against the backdrop of the OECD Country Programme for Kazakhstan (KCP), launched in January 2015 and renewed in the spring of 2017.

The Programme supports Kazakhstan's long-term domestic reform agenda on critical issues, including civil service reform, the rule of law, social policy and diversified and sustainable economic growth. It offers a structured co-operation plan involving analysis, capacity-building and policy dialogue that brings economic and social policy makers from Kazakhstan together with their peers from OECD countries. The Country Programme aims to allow both sides to learn from each other's experiences and to co-operate in devising approaches to such critical policy challenges. The chapters that follow present snapshots of much of the work conducted within the framework of the Programme.

In 2010, Russia, Belarus and Kazakhstan formed a Customs Union within the already existing Eurasian Economic Community. In 2012, this became a Common Economic Space (CES), providing for free movement of goods, labour, capital and services across the member states, and in 2015, the CES became the Eurasian Economic Union (EEU), encompassing the original three member states, as well as Armenia and Kyrgyzstan, and providing for common transport, agriculture and energy policies, in addition to a single market (Johnson and Köstem, 2016[13]).

The EEU remains controversial, within Kazakhstan and abroad. It has raised new barriers between EEU and non-EEU members, not least because some partners have had to adopt higher tariff levels when adhering to the common external tariff. However, the impact of this will abate somewhat as WTO-mandated annual tariff reductions are implemented. Secondly, there have been conflicts among EEU members concerning the imposition of *ad hoc* restrictions and non-tariff barriers that disadvantage them (Boguslavska, 2015[14]). Nevertheless, border crossings within the Union have become easier since the Customs Union was formed in 2010. In the longer run, the more important question may turn on the impact of EEU accession on members' economic institutions and governance, but it is far too soon to pass judgement on such matters.

## 1.2. Main challenges ahead

By almost any measure, Kazakhstan has made extraordinary progress since the crisis-ridden years of the early 1990s. There is, however, still much to be done. To diversify the structure of economic activity and sustain strong growth over the long term, Kazakhstan must continue to demonstrate progress towards more effective public governance, promote a more open and competitive economy, adopt a greener growth model, and develop education, employment and social inclusion.

***More effective public governance requires significant changes***

The government has made substantial progress in improving good governance, including significant changes to budgeting practices, reforms of the civil service, and e-governance. However, a number of governance issues continue to inhibit long-term sustainable economic development, including an overly centralised governance system, politicisation of decision-making, limited devolution of powers to regional administrations, lack of transparency, and corruption. The legacies of Soviet administrative practice remain clearly visible in Kazakhstan's public governance, particularly its slow and highly formalised bureaucratic procedures. Chapter 2 explores these issues in some detail and looks at the proposed solutions emerging from OECD work under the Kazakhstan Country Programme.

The issue of over-centralisation is particularly salient. The governance system is highly centralised by OECD standards, particularly within the executive branch of government. Many institutions and government bodies have similar remits and specialisations, which results in an overlapping of functions and confused lines of authority and accountability. Furthermore, the roles and responsibilities of the cabinet, ministries, sub-national levels of government, and other government institutions are not sufficiently defined.

Improving the efficiency and quality of governance must also involve decentralisation of authority, both to the legislature and to sub-national levels of government. At present, the devolution of powers to regional authorities is limited, and the centre of government (CoG) maintains considerable influence over local political and economic processes. The result is an inflexible system that is unable to respond quickly and effectively to local needs. In turn, regional authorities lack accountability, since their lack of capacity is a by-product of a governance system outside their control, which further entrenches inefficient practices and governance. The absence of direct taxation at the regional and local levels is a further impediment to sub-national government accountability.

The responsibilities of local governments are not commensurate with their administrative, policy, and fiscal capacities. By deconcentrating power from the CoG, the capacity of sub-national administrations to react in a timely manner to local events, and to more efficiently fulfil their existing responsibilities (including, among other areas, social services, environmental protection, and provision of utilities) will be significantly improved.

Corruption and issues of transparency persist as major impediments to good governance. Transparency International ranked Kazakhstan 131st out of 176 countries in its 2016 Corruption Perception Index, with approximately 26.7% of companies admitting to having expected a bribe request. A number of high-profile scandals, such as the arrest and imprisonment of the chairman of EXPO-2017 on charges of embezzlement of state funds, have reinforced the perception of corruption as an inveterate problem at all levels of government.

The problem of corruption is aggravated by a prevailing lack of transparency, with opacity in government spending and activities entrenching public distrust. In the absence of publicly accessible information on government spending, public institutions are unable to build the trust of the population that is essential for them to function effectively. The government has taken steps to address the related issues of corruption and transparency, with its ambitions most clearly articulated in the "100 Concrete Steps to Implement Five Institutional Reforms" and "Anti-Corruption Programme (until 2025)". However, legislative change is insufficient to address corruption and transparency problems. The government must also allocate sufficient resources so that implementation and enforcement of current and future measures can have the desired effect.

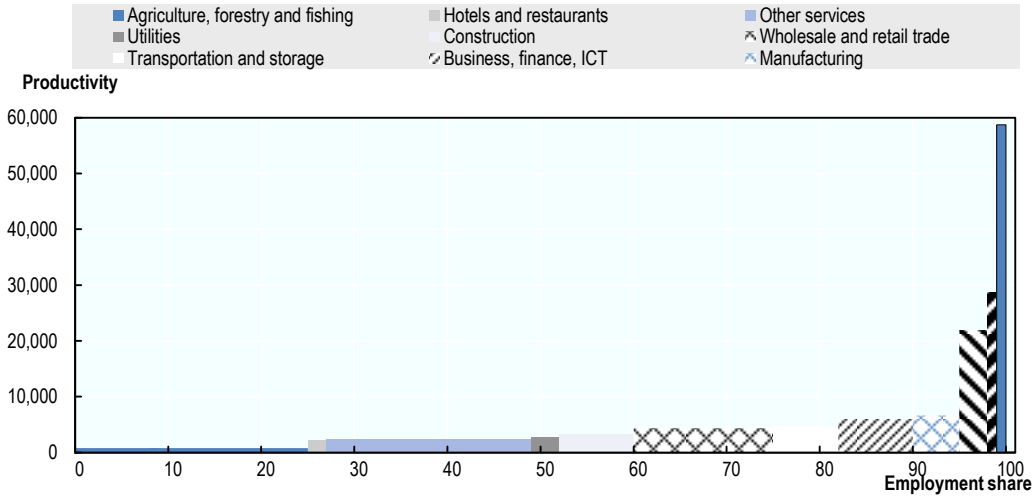
***A more open and competitive economy will support diversification***

Despite recent progress in convergence, labour productivity remains comparatively low by OECD standards, and OECD (2016[6]) notes that total factor productivity growth has slowed somewhat since the global financial crisis in 2008-09. Moreover, there are very large disparities in productivity between both regions and sectors:

- OECD (OECD, 2017[15]) finds that inter-regional disparities in GDP per capita and per worker are exceptionally high in Kazakhstan, with an inter-regional Gini coefficient of GDP per capita of 0.41 in 2010. This was higher than that of any OECD member state, as well as such emerging economies as India, Indonesia, Ukraine and South Africa, though it was lower than China or Russia. Inter-regional inequalities increased rapidly during the first years of post-transition growth (only Greece and Ukraine recorded more rapid increases in inter-regional inequality) although they have been fairly stable now for around a decade. Zhambyl, Almaty, and South and North Kazakhstan fell further behind relative to the other regions, while Astana and Mangystau grew particularly fast. Of course, these trends coincided with declining inequality among individuals, reflecting in part the movement of population to areas with faster growth and better living standards, particularly around Astana and Almaty.
- Most employment is concentrated in low-productivity sectors (Figure 1.6). Resource extraction is highly capital intensive: while it generates upwards of 20% of GDP, it employs a mere 2% of the working population. At the same

time, close to half the population is employed in sectors with average productivity that is lower than half the national average.

**Figure 1.6. Productivity per worker (KZT) and employment by sector (%), 2013**




*Note*: Productivity for the public sector based on wages and other input measures.
*Source*: Authors' calculations (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

As will be seen in Chapter 3, such disparities across sectors constitute one of the strongest arguments for making the diversification of economic activity a policy goal: given Kazakhstan's population and human capital endowments, a flourishing non-resource urban sector is likely to be crucial to long-term social and political stability, as well as broad-based prosperity. Kazakhstan can never follow the path of some of the smaller oil-exporting countries, such as Kuwait. Its resource sectors alone will never be able to provide an acceptable standard of living for the great mass of the population, even if one makes very aggressive assumptions about both future resource prices and Kazakhstan's ability to increase resource extraction. This points to the need for diversification in directions that will create more high-productivity employment.

Service sector growth may yet offer opportunities: the services share of GDP is still well below the levels observed in the advanced OECD economies, and most service sectors are still relatively undeveloped, particularly high-value-added services like finance. There are risks here, though, inasmuch as a great deal of service-sector growth in recent years has been in non-tradable segments, like wholesale and retail trade, which in turn were largely driven by inflows from resource exports and which in many cases are characterised by low productivity. The challenge for policy makers is to facilitate the emergence of new, high-productivity activities in tradables as well.

Closely related to this is the challenge of private-sector development. At present, Kazakhstan's economy is largely driven by wholly or primarily state-owned entities. Price controls are in place in a number of markets, and discretionary interventions by state actors are common. Limited competition also distorts price signals in some important sectors.

The government's commitment to a new and substantial wave of privatisations is welcome, but it will not deliver rapid change. Much will depend on just how

privatisations are conducted and on how complementary reforms create an open and competitive environment, with a level playing field for both new and privatised firms. A great deal also hangs on current efforts to strengthen the financial system; its weaknesses are an issue for foreign partners and local entrepreneurs alike.

High levels of state intervention in the economy can hinder foreign investment, entrepreneurship and innovation. They also limit the space for the growth of new firms. The SME shares of both GDP and employment are low by international standards, and smaller firms often operate on the fringes of the informal economy. Innovation performance is weak, and inputs to innovation are limited. R&D expenditures have been fluctuating between 0.15% and 0.17% of GDP in recent years, well below the government's 2% target and below the OECD average of 2.4% in 2015. The business sector only performs about 40% of R&D in 2015, which is well below the OECD average (68%) but also far lower than in countries like China or Malaysia (OECD, 2017[16]).

***Kazakhstan needs a greener growth model***

The government has outlined ambitious national economic and environmental targets as part of its attempt to move towards a greener growth. In addition to its domestic pledges, most clearly articulated in its Green Economy Concept (GEC), the government has also committed itself to numerous international environmental treaties (IEA, 2015[17]). Whilst these efforts are welcome, Chapter 4 argues that the circumstances in which these changes are to take place are inauspicious and suggests a number of steps to accelerate progress towards Kazakhstan's sustainability goals.

Although the energy intensity of GDP fell sharply in the 1990s, Kazakhstan remains one of the most energy-intensive countries in the world. In part, this reflects its economic structure. Kazakhstan's economy is dominated by energy-intensive sectors, such as resource extraction. Yet its energy intensity is exceptionally high even when compared to other countries that rely heavily on their extractive sectors. The problem is exacerbated by inefficient practices, outdated technology and aging infrastructure, much of which was inherited from the Soviet Union.

Kazakhstan continues to have serious problems with energy efficiency and savings. A combination of outdated heat distribution systems, transmission systems, and inefficient technology in the industrial sector contribute to sizable energy losses. Whilst the government believes that a modernisation of production technologies could deliver energy savings of 15-40% in the industrial sector, the extent to which these savings will be offset by expansion of the country's hydrocarbon sector is unclear.

Kazakhstan's energy efficiency problems are not mitigated by the limited contribution of renewable sources to the country's energy mix. While the IEA has noted the potential for expanding the contribution of renewables (IEA, 2015[17]), they currently account for only 1% of the energy mix and 9% of electricity output. The government has initiated plans for additional renewable capacity of 3 054 MW, primarily from expanded wind and hydropower sources, but progress has been slow, its implementation impeded by a lack of effective co-ordination and concomitant financing constraints at the national and local level.

The predominance of extractive industries and the associated high levels of energy intensity risk significant damage to land, water, and to air quality in the country. As the largest emitter of greenhouse gases (GHG) in Central Asia (Asian Development

Bank, 2012[18]), Kazakhstan has GHG emissions that are high in both *per capita* terms and relative to production. For the purposes of illustration, $CO_2$ emissions per unit of GDP are almost four times the Norwegian level, and 15% higher than levels in China (OECD, 2016[6]).

One of the most significant impediments to transitioning towards a greener economy is the dearth of available financing for investment purposes. The vast majority of financial commitments received by the government come from multilateral channels, including the EBRD, European Investment Bank (EIB) and the European Union (EU). There has been very little private-sector involvement in renewable energy and climate projects; private investment has been hampered by an inauspicious business climate, with permits for green and environmentally oriented projects difficult to obtain.

One of the most significant impediments to green growth is the country's continued subsidisation of energy for the domestic market, which reduces interest in energy efficiency and investment in green technologies. In the absence of a strong regulatory and legal framework, combined with the wide availability of cheap energy from non-environmentally friendly sources, the government will struggle to attract the investment needed to achieve its green ambitions.

***Education, employment and social policies can make growth more inclusive***

Kazakhstan's economic progress has become increasingly inclusive over the past decade, reducing inequality and bringing benefits to a wide spectrum of the population. The unemployment rate has halved from the levels commonly seen in the 2000s, and youth unemployment rates are one-fifth of the level they used to be. This, in turn, has resulted in higher wages and increasing incomes. Kazakhstan's Gini coefficient is low compared to regional peers and OECD countries, having fallen from 0.319 in 1996 to 0.278 in 2014.

However, Chapter 5 finds that important challenges remain, not least because there has in some cases been a contrast between progress on monetary and non-monetary dimensions of well-being and also because assessments of public service provision have identified significant gaps between quantitative progress, in expanding the services available, and improvements in the quality of services. This is something to which the government has in recent years paid greater attention.

As Kazakhstan continues to develop and improve its economic and social well-being, its growth will become increasingly dependent on efficiency and productivity gains, underpinned by strong human capital. To achieve such "high order" growth, Kazakhstan needs to see through several recent initiatives to link its economic performance with increased access to education, quality of employment and expanded social inclusion.

In education, for example, reforms need to address the governance of the education system, the inefficient education funding scheme, and an overly centralised academic system. Even though the academic autonomy of universities has increased in recent years, Kazakhstan still relies heavily on the decision making of the Ministry of Education and Science (OECD, 2017[4]). Curriculum development, budgeting and organisational flexibility are not yet sufficiently autonomous. The government is taking steps to improve external quality assurance in higher education, but internal institutional quality assurance and improvement are underdeveloped.

Kazakhstan also faces some issues with the funding of its education system. Its recorded level of public funding for education was 3.8% of GDP in 2013, compared to an average of 5.6% across OECD countries in 2012. Moreover, funding is usually determined on a discretionary and incremental basis by rayons.

In the labour market, Kazakhstan has achieved good employment rates and low inactivity rates, but more can be done to improve job quality. Approximately 20% of the working population is in informal employment – usually with lower paying jobs, limited access to training, poor social security coverage and little labour protection. A relatively high share of the population is also self-employed (30%) (OECD, 2017[4]).

Particular attention should be paid to youth, older workers and the disabled. While the youth unemployment rate is one of the lowest in the world, younger people usually work in jobs with poor quality and pay, frequently in the informal sector. The number of disabled persons in Kazakhstan is very low by international standards, at 3.5-3.7% in 2010, due to its narrow definition of disability. Those disabled persons who still have work capacity are rarely able to remain employed. The disabled are less likely to work full time or to hold onto their jobs. The elderly usually stop working before retirement age, and those who continue often have low-quality jobs. Early exit from the workplace is usually due to institutional factors, such as the low retirement age, the absence of incentives to keep working after retirement, and in many cases, poor health.

The government is taking action to strengthen female participation in the labour market. The female activation rate, at 61%, is just below the OECD average of 62% (OECD, 2017[19]) and above the levels of many OECD countries. As in the OECD area, women have lower employment rates and higher inactivity rates than men. There is still an over-representation of women in "feminised" sectors of the economy, and women on average earn only 67% of what men do. Female employment in SMEs has increased, but this is often accompanied by substandard working conditions. Women remain largely absent at directorial and executive levels – according to the World Bank, only 4.2% of large corporations are led by women. They have good access and enrolment in education but are overrepresented in traditional areas of study.

***Implementation is an overall challenge***

Kazakhstan has the potential to sustain strong growth over the longer term, but, given its current, somewhat fragile economic structure, continued adherence to prudent macroeconomic policies will be essential to achieving this goal. Realising its full long-term growth potential will also require further structural reform in a large number of areas, to render both the state and the economy more efficient and more resilient. Fortunately, the authorities in Kazakhstan have committed themselves to a wide range of needed structural reforms and also to continued macroeconomic discipline. *Implementing* many of these reforms is likely to prove far more difficult than designing and adopting them, however, and will place great demands on the political will and administrative capacities of the state. Nevertheless, if the authorities are able to deliver on their reform commitments, Kazakhstan may well realise its ambition to join the ranks of the world's most developed countries, not only in terms of economic output but also, more critically, in terms of citizens' well-being.

# *Notes*

[1] Estimates vary widely, owing to the chaotic economic and political situation; see (Granville, 1995, p. 14[150]), (Ericson, 1995, p. 37[149]).

[2] While there is no doubt that the initial transition recession across the post-Soviet space was traumatic, there is considerable debate about just how severe it was, owing largely to problems with the consistency of data across the early stages of transition. In all likelihood, the real contraction was less severe and the impact on incomes and living standards less dramatic than the headline figure would suggest. See Ahrend and Tompson (2005, p. 11[148]).

[3] *Command GDP = TDDV + XGSV*(PXGS/PMGS) – MGSV*, where TDDV is total domestic demand, XGSV and MGSV are, respectively, export and import volumes, and PXGS and PMGS are the export and import deflators. Since the terms of trade are defined as the price of a country's exports divided by the price of its imports, deflating both exports and imports by the import price deflator (rather than using different deflators for imports and exports, as is done when computing conventional measures of GDP) yields a summary measure of the impact of terms-of-trade shifts on a country's purchasing power – i.e. on its ability to "command" goods and services. In other words, this indicator reflects an awareness of the fact that exports are important precisely because they enable a country to pay for imports. For further discussion of the command GDP indicator, see OECD (2003:37-8).

[4] Using a somewhat different method (IMF, 2017[153]), the International Monetary Fund finds that Kazakhstan's windfall losses over 2015-16 exceeded 20% of GDP and that only Saudi Arabia suffered a greater shock over the period (Algeria's was roughly comparable).

[5] In dollar terms, the decline was in the order of 70%, but the depreciation of the tenge from the summer of 2015 helped cushion the revenue impact on the budget.

[6] In 2009, Japan experienced a 19.5% improvement in its terms of trade, thanks largely to sharply falling prices for many of the commodities it imports.

[7] Precise comparisons with the period before 2010 are not possible, owing to changes in the system of national accounts.

[8] Here defined as the poverty headcount ratio at national poverty lines (% of population).

[9] The Gini coefficients for Kazakhstan are not fully comparable to those for OECD countries because of methodological differences; therefore precision with respect to comparing levels is not possible. However, the trend is consistent and remarkable: growth has coincided with decreasing inequality. See (IMF, 2014[154]) and (OECD, 2016[6]).

[10] The desire to reduce the country's reliance on Russia arguably also played a role. Russian companies, however, were never excluded from the sector and Lukoil, in particular, was an important player.

# CHAPTER 2

# Supporting effective public governance

*In the past decade, Kazakhstan has stepped up its efforts to strengthen the quality of public governance. Despite recent reforms, the top-down structure, lack of transparency and perceptions of corruption that weigh on public governance in Kazakhstan undermine the effectiveness of policy processes and efforts to implement reform. This chapter examines public governance in Kazakhstan and identifies the constraints on decision-making capacity, access to resources and public representation. The challenges of public governance suggest a need for greater transparency, decentralisation of authority, accountability and civic participation through a more open government, the rule of law and an environment of integrity.*

# 2. SUPPORTING EFFECTIVE PUBLIC GOVERNANCE

The government has made public governance reform one of its priorities, giving it a prominent place in the flagship "100 Concrete Steps" reform programme.[1] This recognition and the initiatives that it has engendered are encouraging. However, despite progress in a number of areas, including performance budgeting and the expansion of e-government, there remains much to be done. Kazakhstan's public governance continues to reflect the structures and processes of the Soviet system (OECD, 2017[20]). Its public administration is still dominated by highly formalised bureaucratic institutions organised on a territorial basis and with a hierarchical reporting system. Public decisions and actions are carried out in a largely top-down manner, based on rigid traditional command-and-control approaches.

Decision-making continues to be concentrated in the executive branch, above all in the presidency, ministries and other central executive bodies. Despite recent changes aimed at shifting some powers to parliament and creating greater checks and balances, Kazakhstan could still benefit from an approach that offered more flexibility and accountability, and which supported local and national authorities in their decision-making capacities, access to resources and public representation.

Kazakhstan has also begun to pursue an open government agenda, which has led to the introduction of the Access to Information Law and the Public Councils' Law. The government has joined initiatives which support and promote open government, including the Extractive Industries Transparency Initiative and the Open Budget Index. Government operations would, however, benefit from greater transparency and a more streamlined legal framework – this would simplify compliance and reduce opportunities for corruption.

The authorities are well aware both of the need to modernise public governance and of the integrity challenges the country faces, and they have in recent years introduced a number of measures to address them. In addition to changes in the legal and institutional framework, the government should focus on implementation and effective public management of governance reforms. Increasing interactions between the public and the state through productive communication and open dialogue can also contribute to better policy making and implementation.

This chapter reviews the progress that Kazakhstan has made in reforming public governance and looks at the remaining challenges that must be addressed if it is to achieve its long-term goal of becoming one of the world's 30 most advanced countries. It analyses Kazakhstan's inherited governance system and the distribution of powers and responsibilities among the various levels of government, the state of public sector integrity and, finally, opportunities for greater openness.

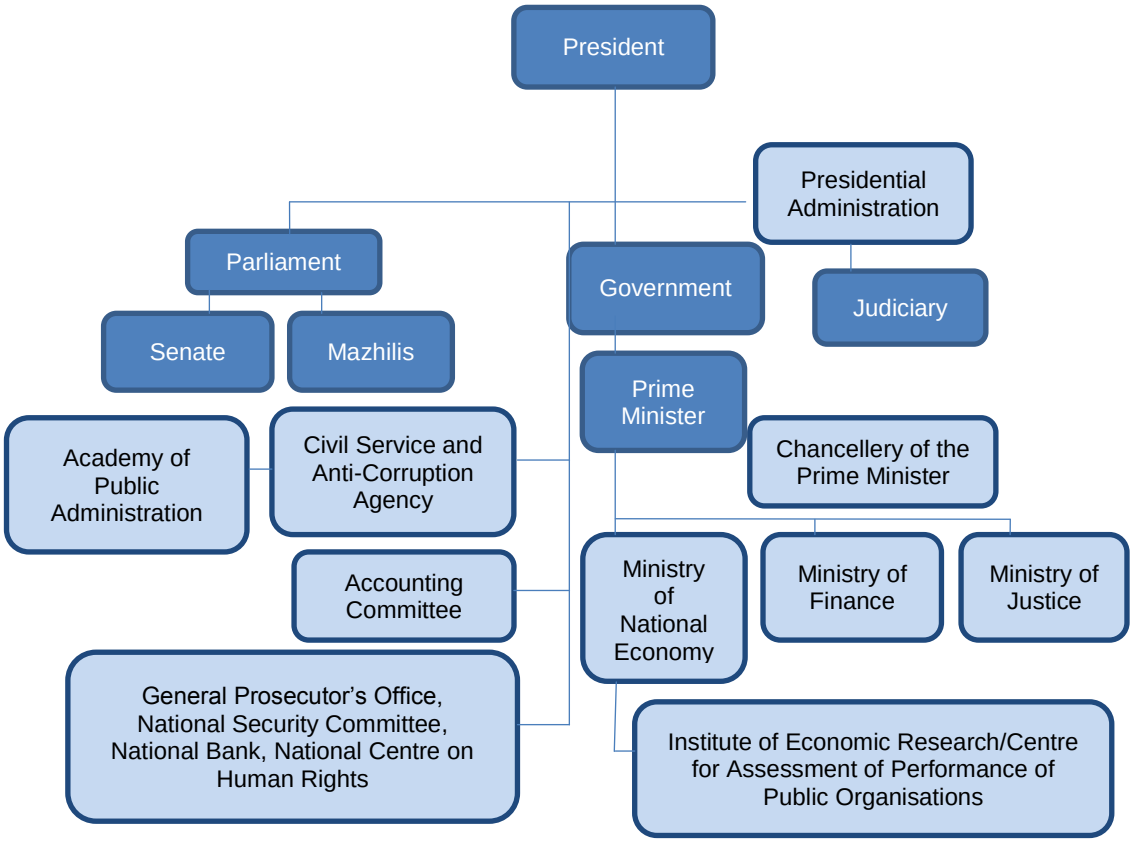
## 2.1. Kazakhstan's governance structure

### *Decision making remains concentrated in the centre of government*

Kazakhstan's governance system concentrates decision-making power at the centre of government (CoG), which consists of the Presidential Administration, the Prime Minister's Chancellery, and the Ministry of National Economy. These institutions exert strong political control over policy decisions and strategic planning, whereby

the government exercises a top-down management style and closely monitors the implementation of its agenda (OECD, 2014[21]). Despite recent reforms that have slightly increased ministerial autonomy, hierarchical structures of the government have overall been reinforced (OECD, 2017[22]). The president's powers are extensive, and include both the issuing of binding decrees and executive orders and the definition of strategic priorities for the government (constituted by the Cabinet of Ministers, under the prime minister). The structure of the CoG is schematised in Figure 2.1.

**Figure 2.1. The centre of government in Kazakhstan**




*Source*: (OECD, 2014[21]).

The president is engaged in most CoG functions and is responsible for the majority of central government functions as defined by the Constitution. The major exceptions include budget allocation, adjudication, capacity building and certain ministerial functions. The central government functions are also spread across different government bodies. For example, responsibility for strategic direction, co-ordination and planning is also shared among the president, the Ministry of National Economy and the Ministry of Finance. The development of the public management agenda also falls under the jurisdiction of the president, the Ministry of National Economy, the Ministry of Finance, the Ministry of Justice and the Agency for Civil Service Affairs and Anti-Corruption (OECD, 2014[21]).

The allocation of central functions in Kazakhstan is highly centralised by OECD standards, and there is a high degree of overlapping of functions among different bodies, with little differentiation of competences (Box 2.1). Better allocation of competences helps to avoid duplication, to create a coherent approach to policy making, and to ensure efficient functioning of the government (OECD, 2014[21]).

The CoG employs two main avenues to orient and co-ordinate the activities of line ministries and regional authorities: planning and performance evaluation. Not only does this create a significant monitoring cost for the government, but it limits the autonomy of ministries. As noted in the 2017 OECD report "Towards a More Effective, Strategic and Accountable State in Kazakhstan," the government has recognised the burden caused by overly centralised planning. Accordingly, it has taken steps to streamline the planning system, including reducing ministerial overlap, reducing the number of planning documents, and strengthening the link between the budget process and strategic planning. In addition, a Law on State Service from November 2015 includes provisions to increase the capacity and autonomy of Ministries, streamline the functions and roles of central agencies, and encourage transparency and involvement of clients and citizens in policy making, monitoring and assessment.

Beyond the measures already enacted by the government, Kazakhstan's public governance would benefit from a cultural shift away from instructing line ministries on policy and leaving them to formulate their own strategies. For questions with respect to which the CoG is unable to decentralise decision-making authority, channels should be opened that allow line ministries to contribute to decision making at the CoG level. By increasing the autonomy and responsibility of line ministries in this way, Kazakhstan can create a more efficient and responsive governance system (OECD, 2017[22]).

**Table 2.1. Allocation of central functions across central government institutions in selected OECD countries and in Kazakhstan**

| Country | Direction setting, including policy advice, co-ordination and strategic planning | Government-wide public management agenda, including regulatory quality | Monitoring and oversight | Capacity building and strategic services to ministries | Strategic research and insight | Manage interface between politics and bureaucracy | Adjudication | Budget allocation | Economic analysis |
|---|---|---|---|---|---|---|---|---|---|
| Australia | Department of the Prime Minister/Cabinet | Public Service Commission | | Australia and New Zealand School of Government | | Department of the Prime Minister/Cabinet | | Finance Ministry | Treasury |
| Canada | Privy Council Office | Treasury Board Secretariat | Privy Council Office and Treasury Board Secretariat | Canada School of Public Service | Privy Council Office, Canada School of Public Service | Privy Council Office | Public Service Commission, Public Service Staffing Tribunal, Integrity Commissioner, HR Commissioner | Treasury Board Secretariat | Finance Ministry |
| Finland | Prime Minister's Office | Finance Ministry | | Haus-Finnish Institute of Public Management | | Prime Minister's Office | | Finance Ministry | Finance Ministry |
| France | Prime Minister's Office/President | Budget, Civil and Service Public Accounts | Prime Minister's Office | École national d'administration/Centre national de la fonction publique territoriale | | Prime Minister's Office | Council of State/administrative tribunals | Budget, Civil Service and Public Accounts | Industry, Finance, Economy |
| Korea | | Ministry of Public Administration and Security | | Korea Institute of Public Administration | | Ministry of General Affairs | | Finance Ministry | |
| Netherlands | Ministry of General Affairs | Interior Ministry | | Dutch Institute for Public Administration | | Ministry for General Affairs | | Finance Ministry | |
| New Zealand | Department of the Prime Minister/Cabinet | State Services Commission | | Australia and New Zealand School of Government | | Department of the Prime Minister/Cabinet | | Treasury | |
| United Kingdom | Cabinet Office | | | Civil Service College | | Cabinet Office | | Treasury | |
| Kazakhstan | Presidency, Chancellery, Ministry of National Economy and Ministry of Finance | Presidency, Ministry of National Economy, Civil Service and Anti-Corruption Agency, Ministry of Finance, Ministry of Justice[2] | Presidency, Chancellery, Civil Service and Anti-Corruption Agency, Ministry of National Economy | Academy of Public Administration, Civil Service and Anti-Corruption Agency and Ministry of National Economy | Presidency (Centre for Strategic Research), Academy of Public Administration | Presidency, Chancellery | Civil Service and Anti-Corruption Agency/courts | Finance Ministry | Finance Ministry, Ministry of National Economy, Presidency, Chancellery |

*Source*: (OECD, 2014[21]).

### *Better definition of public governance roles is needed*

Recent changes to the Constitution deconcentrate powers to some extent. These amendments allow for new transfers of power and for the redistribution of functions between levels of government, which aim to improve the system of checks and balances and strengthen the accountability of the government. For example, the government now reports not only to the president but also the Mazhilis (the lower chamber of parliament) on all major decisions and directions of its activities. The

Mazhilis now has the right to appeal to the president regarding dismissal of a member of the government in case of failure to comply with the laws. These revisions aim to increase the accountability and transparency of the government by introducing means for improved checks and balances within central functions, particularly those concerning the president (Adilet, 2017[23]). These measures are welcome, but better clarification of the roles and responsibilities of the cabinet, the individual ministries, sub-national levels of government and subordinate organisations is needed. Delegation of responsibilities should also be supported with clear results-oriented accountability frameworks.

The ability of CoG institutions to implement the country's long-term vision can be improved through further rationalisation of the often overlapping functions and roles of central agencies. For example, strengthening ministries' competences by giving them more autonomy would help them better generate policy priorities and improve their effectiveness, while streamlining a reporting and performance measurement-based oversight system. Expanded ministerial responsibilities will require additional capacity building, particularly as regards analytical competences, as well as the development of tools and structures to encourage collaboration among ministries. The OECD also recommends that Kazakhstan introduce new tools to strengthen governance and policy-making capacities for risk management and policy evaluation (OECD, 2014[21]).

Practice from OECD countries shows that proper co-operation, collaboration and co-ordination among central bodies help to ensure effective policy making and strategic planning. Rather than pursuing a "top of the pyramid" approach focused on controlling political decisions and top-down management, the CoG should be situated and structured to ensure effective communication between all agencies for implementation of the government's agenda (OECD, 2014[21]).

To support more effective performance in the public sector, it will be necessary to encourage a cultural change towards better delineation of responsibilities and autonomy (OECD, 2014[21]). Kazakhstan's current system is focused on supporting the executive branch and intra-government operations. This has resulted in an inward-oriented mode of operation, limiting the CoG's ability to react to changing circumstances and to adjust policies quickly. Internal processes can be very time-consuming, lacking checks and balances among institutions. In OECD countries, government bodies have more separated responsibilities, divided among a smaller number of agencies. This allows them to focus on strengthening policies and management, while moving away from more "secretarial" operations and towards more "public-facing" functions. Kazakhstan will need to move towards a more public-facing culture, which will help improve relationships with non-governmental stakeholders and strengthen policy processes. The government will then be able to respond faster to emerging issues (OECD, 2014[21]).

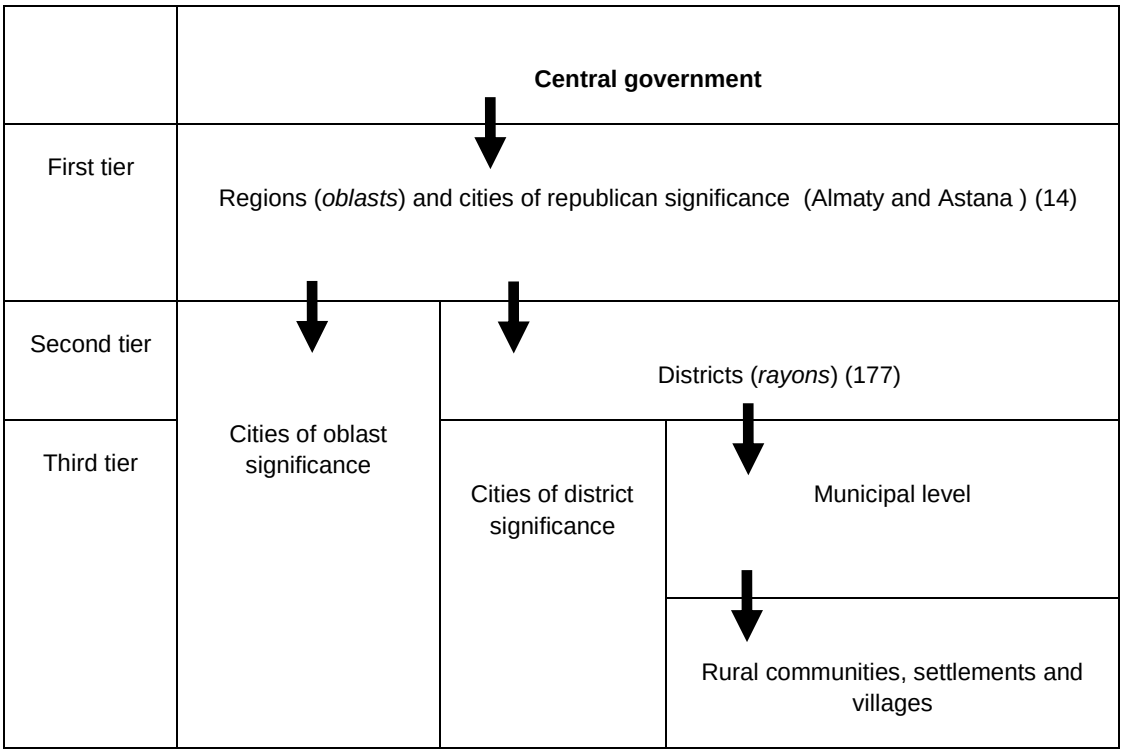
Shifting certain functions away from the centre will in some cases involve privatisation of assets or out-sourcing of activities. State executive bodies currently exercise property rights over numerous state-owned enterprises (SOEs). Kazakhstan has recognised the need to transfer some CoG functions to the private sector (see Chapter 3 on the reform of SOEs). Deconcentration measures can pave the way for healthier governance and for a better balance between public and private activities (OECD, 2017[15]).

## 2.2. Devolving powers

***The hierarchical local governance structure is restrictive***

Kazakhstan's current territorial-administrative structure and system of local governance remain very hierarchical, as the centre of government (CoG) maintains considerable control over sub-national governments and local authorities. In the current system, Kazakhstan has 2 676 sub-national governments, which form various layers of territorial administration: a regional (*oblast*) level, which includes Almaty and Astana (these cities have republic status), a district (*rayon*) level, cities of district significance, and a municipal level which includes rural communities, settlements and villages. Lower levels of government are directly subordinate to the tiers above (Linn, 2014[24]). Local governments play an important role in providing both national and sub-national services (OECD, 2017[15]). They are responsible for the reporting and control of an extensive number of services, including: basic utilities (water, gas, electricity, heat supply, waste management, sewage, etc.), environmental protection, employment creation, public order and security (OECD, 2017[15]). Local governments are also responsible for delivering social services and social protection programmes that are funded by the national budget, such as health care services and education.

**Table 2.2. The territorial structure of sub-national government in Kazakhstan**




*Source*: (OECD, 2017[15]).

### *Constraints on local capacities must be addressed*

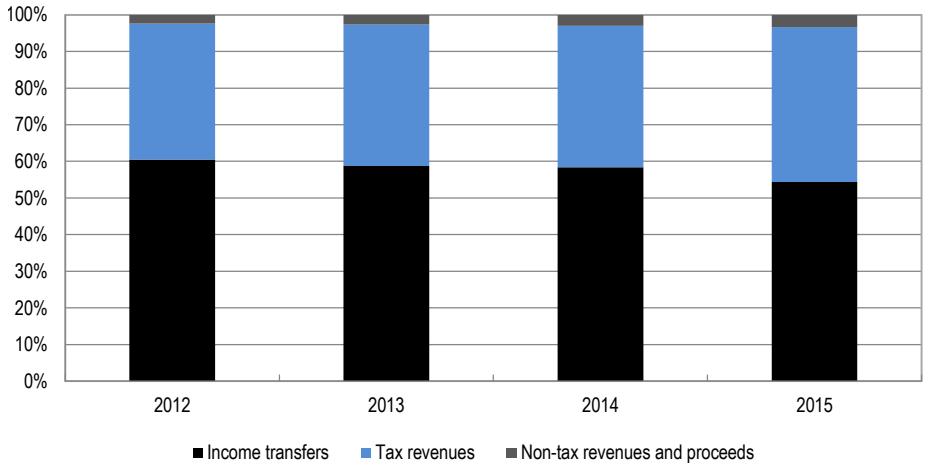
Decentralisation is one of the most important priorities for public administration reform in Kazakhstan (OECD, 2017[20]). Since independence, Kazakhstan has implemented a number of regulatory reforms to define responsibilities across the levels of governance, unify government structures and public services across its regions, and build a permanent base of resources for local administrations. Self-government reform was included in the 2007 constitutional amendments (OECD, 2017[15]). Strategy 2050 includes specific proposals to decentralise power through increased fiscal transfers and mandates to the regions. Over time, governments at lower levels have acquired more autonomy in the design and implementation of regional development policies and programmes (OECD, 2017[15]). Kazakhstan conducted a study visit to Poland in November 2017 on the topic of self-government and plans to carry out a study of local self-governance in Kazakhstan in 2018.

Whilst these steps are both welcome and necessary, Kazakhstan would benefit from granting greater regional autonomy, which would allow newly acquired responsibilities to be more effectively fulfilled (OECD, 2017[20]). Local governments, despite the many services they are responsible for, largely operate in a manner that reflects hierarchical governance, and centralised planning and decision-making procedures. The concentration of functions at the central government level in large measure reflects the local level's limited policy, administrative and financial capacity (OECD, 2014[21]). It also reinforces those weaknesses, since centralised governance reduces the incentives to strengthen local capacity. This has important implications for the quality, efficiency and effectiveness of public service provision.

The 2001 Law on Local Government set in place the legislative framework for central-local government relations and transferred some central roles to local governments. However, implementation has been uneven across the country, stemming in part from the lack of clarity about the roles, functions and authorities of local legislatures and the various sub-national levels of government (OECD, 2014[21]). Some authority and responsibility has been delegated to sub-national levels, but local units are still fully accountable to the central government. The lack of horizontal co-ordination among cities or regions ultimately prevents collaboration among cities that could produce economies of scale (OECD, 2017[15]).

At present, effective local governance is still being held back by highly centralised budget management and financial administration. Under the Budget Code and other laws, local governments depend on the central government for financial resources through a system of financial transfers based on assigned taxes and subventions (Figure 2.2). Overall, the most important taxes go to the central government's budget and are distributed to regional governments, although the methodology for revenue redistribution across regions lacks clarity (OECD, 2017[3]). If revenue exceeds a local budget's forecast expenditure, this is reallocated to the central government, often with implications for budget allocation in the following year. Kazakhstan is taking important steps to decentralise budget management in line with the President's aim to create an independent budget at local level as announced in the programme "100 steps". Amendments to the Law on Local Self-Government adopted in July 2017 foresee an independent budget and municipal property for local governments from 1 January 2018 in rural communities with populations of more than 2 000 people. The arrangement will extend to all local communities after 1 January 2020. The sources of the budget will include tax and non-tax revenues.

**Figure 2.2. Share of tax revenues and transfers in local budgets in Kazakhstan**




*Note*: Tax revenues include individual income tax, social tax and excise.
*Source*: (OECD, 2017[3]).

As a result, local governments at village and settlement levels, and those of oblasts and rayons that generate little revenue, are highly dependent on transfers from the national budget. At the same time, revenue-generating oblasts and rayons do not have direct control over their own budgets. Local governments receive a large proportion of their revenues from the central government in the form of general and targeted transfers, and their ability to influence decision-making on revenue issues is limited, with taxation regulated by the Tax Code (OECD, 2017[20]). With limited capacity and flexibility to adjust their revenue sources to expenses, local governments depend for the financing of public services on fiscal transfers and vertical programmes. By limiting the ability of local authorities to manage fiscal matters, including questions of taxation, the central government may weaken local accountability. Local governments also have little influence on decision-making processes for budgeting issues affecting local areas, as these are determined at the national level.

An additional barrier to effective local governance is lack of accountability. Kazakhstan is still in the process of developing direct public participation and democratisation at local levels. Until recently, sub-national executive bodies (*akimat*) were headed by *akims* appointed by the president and the government. In 2013, in accordance with the Concept of Local Self-government Development, the country elected 91.5% of akims of cities of district significance, villages and rural districts (2 457 in total) for the first time. Executives at other levels are, however, still appointed.

Moreover, although elections for akims of cities of district significance, settlements and villages that are not part of rural communities are a welcome development, these elections are indirect: akims are elected by *maslikhats* (elected officials of local legislatures). Since voting in such elections was by secret ballot, at least in the first wave, the accountability of maslikhats to the electorate was weak. No clear role has been developed for citizens in elections, and thus decision-making processes at the local level.

The government plans to examine the feasibility of electing Akims of cities of regional significance, districts of regions and districts of cities in the summer of 2018. Implementation of plans for the introduction of direct election of akims would be a positive step and has the potential to improve public governance in Kazakhstan. Once properly established, these elections will constitute a direct link between local communities and the government. They will help strengthen the accountability of local authorities and help to involve the local public in policy processes. Previously, the appointment of akims at the exclusive request of the president left them more directly accountable to the central authorities (OECD, 2017[15]).

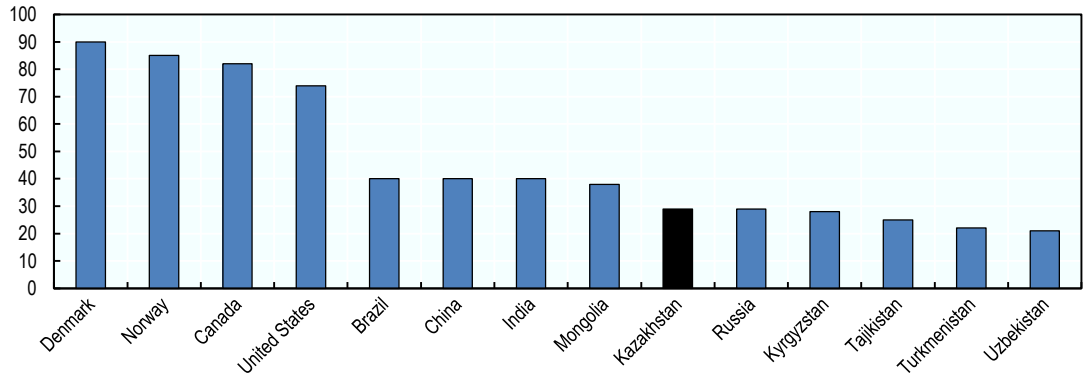
Active promotion of public involvement and participation in local decision-making would also be desirable. Kazakhstan will need to develop mechanisms to empower local communities, civil society and other stakeholders in decision-making processes. These mechanisms should include requirements for local governments to provide information to citizens on a regular basis, allowing for integration of public feedback, and implementing functions within government agencies to increase their responsiveness to citizens. This can be done through the maslikhats and the recently established public councils, advisory bodies that connect the public and government at local levels with parliament at the national level (OECD, 2017[15]).

Kazakhstan has begun taking some steps in this direction, including increasing the rights of rural communities to approve the candidacy and to dismiss Akims of cities of district significance, as well as those of villages, settlements, and rural communities. There are now 229 public councils operating, with a reported 75% of members representing civil society. It is mandatory to include public council recommendations in annexes to bills and draft regulations. To improve the functioning of public councils, the government created a draft provision "On the Public Council" following a conference on public councils, recommendations of a dedicated Working Group on the topic, and a discussion at a Mazhilis meeting. So far, public councils have held around 500 meetings as well as 500 public hearings on specialised topics.

## 2.3. Enhancing public sector integrity and reducing corruption

Corruption remains one of the most problematic areas for Kazakhstan. The country ranked 131st of 176 countries in Transparency International's *Corruption Perception Index* (Figure 2.3) (Transparency International, 2016[25]). Perception indexes can be a misleading indicator of corruption levels; for example, a single high-profile case can have a big impact on the perception of outsiders, for better or for worse, but gradual improvement or gradual deterioration may take longer to become apparent. However, the evidence suggests that countries with a reputation for corruption generally do have serious problems with integrity (Mocan, 2004[26]), (Olken, 2009[27]). Surveys of ordinary citizens also indicate high levels of corruption in public institutions in Kazakhstan (although at rates lower than in other countries in the region), even when they are asked direct questions about their own experience of paying bribes rather than about their perception of the problem (Transparency International, 2016[28]). Moreover, even the *perception* of widespread corruption imposes economic costs, to the extent that it affects investment and other business decisions.

**Figure 2.3. Corruption Perceptions Index, 2016**




*Source*: (Transparency International, 2016[29]).

### *Corruption remains a major problem despite recent reforms*

According to the fourth round of monitoring within the framework of the Istanbul Anti-Corruption Action Plan (IAP) of the OECD Anti-Corruption Network for Eastern Europe and Central Asia (ACN), Kazakhstan has achieved progress in some areas of its fight against corruption. For example, Kazakhstan adopted a new anti-corruption strategy for 2015-2025, which aims to reduce corruption in a number of spheres, including in the civil service. The corresponding action plan for 2015-2017, however, needs to focus much more on concrete anti-corruption measures. According to the ACN assessment, it has not been based on thorough analysis of corruption trends, previous anti-corruption work or outcomes of corruption studies, including those of NGOs (OECD ACN, 2017[30]). For the first time, Kazakhstan is preparing a national report on combatting corruption to review progress over the past year. The monitoring report finds that the integrity of the judicial system has, over the past three years, improved significantly. In procurement, Kazakhstan has continued implementing reforms to increase transparency and introduce electronic procedures. The government's measures aimed at preventing corruption in the quasi-public and private sectors are also to be welcomed (OECD ACN, 2017[30]). Kazakhstan is continuing reforms of the civil service. For example, it has adopted a law aiming to ensure meritocracy, a transition to a career-based model and results-based remuneration. It adopted a common competency framework in 2016, which is to be used to guide recruitment, development, and performance assessment starting in 2018 (OECD, 2018[31]). Kazakhstan's recruitment system has improved and now uses merit-based recruitment to an extent similar to most OECD countries (OECD, 2018[31]).

According to the *2016 Transparency International Kazakhstan Report*, 29% of citizen respondents reported paying bribes in Kazakhstan (Transparency International Kazakhstan, 2016[32]). Among enterprises, 26.7% admitted to expecting at least one bribe payment request, against an average for OECD countries of 1.9%. In addition, corruption has been named as the main obstacle for doing business in Kazakhstan (see Chapter 3 for more detail). Extensive regulatory requirements and administrative procedures, as well as expensive fees, are noted as frequent causes of corruption.

Moreover, corruption is seen as being deeply institutionalised in Kazakhstan and prevalent at high levels of public authority. For example, in June 2016, the chairman

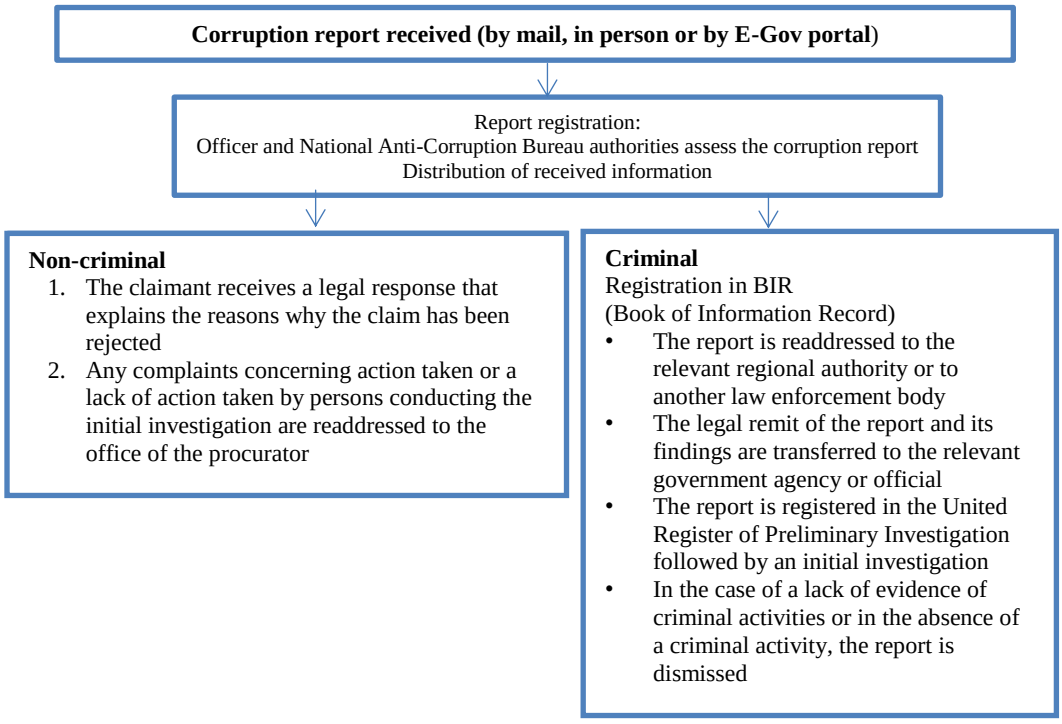
in charge of organising EXPO-2017 in Astana was sentenced to 14 years in jail for embezzling millions of dollars in state funding during preparations for the event (Freedom House, 2017[33]). Even after the prosecution of high-ranking officials for corruption, there is a widespread perception in Kazakhstan that official corruption is endemic (Otsuka, 2013[34]).

The integrity of social, economic, and political institutions is essential to economic and social well-being and to the prosperity of individuals and societies as a whole. Integrity breaches, such as abuse of office, fraud, undue influence and corrupt decisions, can contribute to a widening equality gap and fractured public trust. Integrity policies, aimed at preventing corruption and encouraging high standards of behaviour, help to reinforce the credibility and legitimacy of those involved in policy decision making, safeguarding the public interest and inclusive growth, and restoring confidence in the policy-making process.

### *Enabling public integrity is a priority for Kazakhstan*

The government is well aware of Kazakhstan's challenges with corruption, and has enacted new laws and policies that aim to bring the country closer to international standards. Revisions have been made to the Law on Combatting Corruption, and the "100 Concrete Steps" programme also addresses these issues. The Anti-Corruption Programme introduces a zero-tolerance ideology and reporting mechanism for corruption matters (Figure 2.4). Implementation will be very difficult, but the commitment is a promising development.

**Figure 2.4. Kazakhstan's corruption complaint consideration procedure by the National Bureau of Anti-Corruption**




*Source*: (National Bureau of Anti-Corruption Agency of the Republic of Kazakhstan, 2017[163]).

Kazakhstan has also worked closely with the OECD to bring its legislation into line with international standards. For example, it has adhered to OECD instruments promoting principles on transparency, including the OECD Recommendation of the Council on Principles for Transparency and Integrity in Lobbying. There remain gaps, however, where opportunities for corruption may arise or persist.

OECD recommendations on integrity and anti-corruption focus on three broad areas. First, Kazakhstan must strengthen the legal and institutional environment supporting integrity. For example, it can do more to develop and harmonise legislation with international standards such as the United Nations Convention against Corruption (UNCAC) which it adhered to in 2008 (OECD, 2017[35]). Kazakhstan should include in its Tax Code a provision to disallow tax deductions for bribes given to national and foreign public officials, as well as to officials working in public international organisations (OECD, 2017[35]). Another example is legislation on whistle-blower protection, which in Kazakhstan does not yet include the concept of "reasonable belief": UNCAC stipulates that remedies should exist when a self-proclaimed whistle-blower does not act in good faith and gives a false report (OECD, 2017[35]).

In addition, lack of clarity on issues of institutional independence continues to restrict the effectiveness of state bodies such as the Committee for Regulation of Natural Monopolies and Competition Protection or the National Bureau for Counteraction of Corruption; further restructuring is required. Furthermore, the government must enact the legislative and practical tools to enable enforcement so that laws and policies will be implemented (OECD, 2017[15]). Kazakhstan should consider strengthening the role and capacity of the Parliament to effectively engage in the audit process (OECD, 2017[20]).

Secondly, Kazakhstan must help enforce legislation by providing adequate resources, raising awareness and continued capacity building to ensure that reforms are effective (OECD, 2017[15]). For instance, the government could improve the capacity of law enforcement authorities to investigate and prosecute bribery through regular, practical trainings. Kazakhstan already conducts some training at the Academy of Law Enforcement Authorities under the General Prosecutor's Office. It has trained 549 people over the last three years. The Academy conducted outreach training activities in 2016-2017. It also created a pool of lecturers who are practitioners in anti-corruption bodies.

Thirdly, Kazakhstan can do more to promote greater transparency and the inclusion of non-governmental stakeholders in fighting corruption (OECD, 2017[35]). Stakeholder engagement and increased transparency through better co-operation with non-governmental actors will facilitate the design and implementation of a stronger framework for integrity. Ensuring open access to policy making for all stakeholders, including civil society and the media, will bolster activities supporting integrity. The government has already adopted a Law on Public Councils, a Law on Access to Information and an open government platform. At the 2016 Astana Economic Forum (AEF), Kazakhstan held a discussion on involving NGOs in combating corruption. In a similar vein, a forum on fighting corruption organised together with the National Chamber of Entrepreneurs – the first such forum – resulted in a roadmap for fighting corruption in the 16 areas posing the most difficulty for businesses.

Yet Kazakhstan can take further action. It needs to put in place consistent and transparent criteria on setting up public councils. The distribution of funds to civil society organisations should be transparent and competitive. The media need fair rules of access to information under the Law on Access to Information. (OECD, 2017[35]). The private sector can be a key player in efforts to fight corruption if the government can strengthen guidance on the definition and sanctions of fraud and corruption offered to companies. Kazakhstan can also more actively promote a culture of public and business integrity.

***Curbing corruption requires implementation of policy tools***

As part of its Kazakhstan Country Programme, the OECD has conducted an "Integrity Scan" and used the OECD CleanGovBiz tools and international best practices to assess the country's anti-corruption initiatives and provide recommendations for further improvement (Box 2.1). The integrity assessment is based on the OECD's framework for curbing corruption, examined across 15 sectors in Kazakhstan.

**Box 2.1. Recommendations for strengthening integrity in Kazakhstan**

The following offers a summary overview of recommendations across 15 sectors.

- *Regulatory governance.* Tighten regulatory impact procedures and continue simplifying administrative procedures. Improve regulatory transparency through pro-active public consultations.
- *Competition policy.* Implement and ensure a functioning competitive environment, for example, by strengthening independence of the competition authority and refining the analysis of markets, and market positions.
- *Open budgeting.* Improve comprehensiveness and availability of budget documents to citizens throughout the budget cycle.
- *Development co-operation.* Increase transparency of official development assistance (ODA) through the creation of a national development co-operation agency, and publish details on projects supported with ODA online in real time.
- *Public sector integrity.* Ensure clear institutional responsibilities for public integrity, continue building a culture of integrity and ensure effective accountability in the public sector.
- *Public procurement.* Reduce regulatory exceptions, extend the applicability of regulations to state-owned enterprises, and develop a risk-based framework specific to public procurement to reduce corruption and fraud.
- *Tax transparency.* Improve tax transparency and ensure availability of ownership information on foreign companies linked with Kazakhstan.
- *Export credits.* Institutions that provide government-backed support to exporters should spell out clearly for their customers the definitions of corrupt activities and their legal consequences.
- *Lobbying.* Establish rules on interaction between public and private and not-for-profit sectors through the Code of Conduct and Regulations of the Republic of Kazakhstan, to help clarify boundaries in lobbying activity.
- *Corporate governance.* Offer stronger guidance to companies and make compliance with the Code on Corporate Governance mandatory, to strengthen business integrity.
- *Civil society.* Ensure fairness and transparency in funding for civil society organisations and enhance inclusive and transparent stakeholder engagement in policy making.
- *Detecting tax corruption.* Introduce awareness training on bribery within the tax administration, and adopt a new law prohibiting tax deductions for bribes paid to national and foreign public officials or officials of public international organisations.
- *Whistle-blower protection.* Clearly specify the protections afforded to whistle-blowers and the process through which a whistle-blower can bring forward complaints regarding retaliation, as well as establish sanctions.
- *Media.* Enhance freedom of expression and media independence by removing measures that result in censorship.
- *Bribery.* Build on existing progress on criminalising bribery by covering all necessary elements of bribery in the law. Extend the definition of a bribe to non-pecuniary and intangible benefits.

*Source*: (OECD, 2017[35]).

Within this framework, four cross-cutting pillars are used for curbing corruption: healthy governance, effective prevention, vigilant oversight, and robust prosecution and recovery. Healthy governance is important in curbing incentives for corruption, and provides a legal and institutional framework to ensure functioning markets and effective public governance. Effective prevention helps to ensure safeguards, establish integrity frameworks and allow for greater scrutiny in areas at risk of corruption. Vigilant oversight mechanisms can help the authorities identify where corruption occurs. Robust prosecution and recovery ensures that acts of corruption are criminalised and punished, and that assets acquired through corruption are reclaimed appropriately.

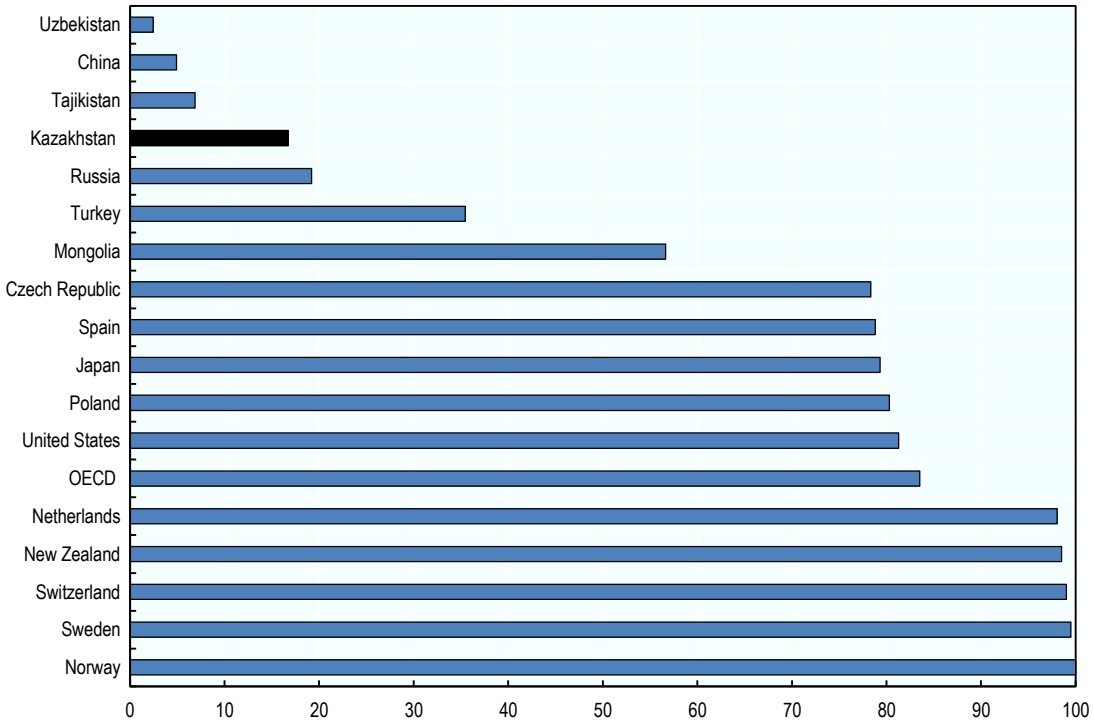
***Open government in Kazakhstan?***

Kazakhstan's government has taken measures to pursue an open government agenda. In December 2015, the country amended the Law on Local Governance and Self-governance to provide more opportunities for citizens participation in decision-making. Due account taken of the high priority that Kazakhstan places on open government and the efforts it has already taken, concerted effort is required to improve further.

In 2016, the World Justice Project's *Open Government Index*, which measures the extent to which a government is ready to share information, allow citizens to participate in decision-making, and improve its own accountability, Kazakhstan ranked 73$^{rd}$ out of 113 countries, and 9$^{th}$ out of 13 countries in Eastern Europe and Central Asia. Kazakhstan's rankings for civic participation performance and developing complaint mechanisms were particularly low.

In 2015, Kazakhstan's ranking in the World Bank's *Voice and Accountability Index*, which measures the degree of citizen participation, was considerably lower than the OECD average (Figure 2.5). Its performance in terms of governmental transparency and accountability is still far from the levels typical in OECD countries.

**Figure 2.5. Voice and Accountability Index, 2015**



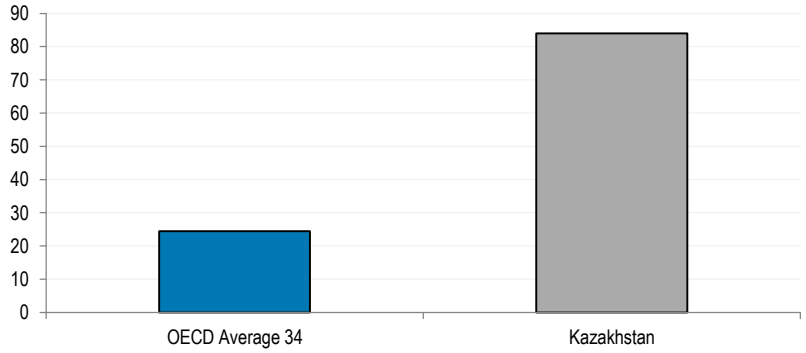

*Source*: (World Bank, 2017[36]).

In particular, although new laws make provision for free speech and prohibit censorship, e.g. through the constitutional guarantee of freedom of speech and of the press and the Law on Mass Media, these rights are restricted in practice (OECD, 2017[37]). Freedom of expression, freedom of association and media freedom are highly constrained. According to the World Bank's "voice and accountability" indicator, which measures citizens' participation in government selection, freedom of association and free media, Kazakhstan ranks below OECD countries and regional peers such as Mongolia, Ukraine and Kyrgyzstan (OECD, 2017[37]).

Over 60 NGOs signed a petition calling on the President to repeal the 2015 Law on State Social Order, Grants and Awards for Non-Governmental Organisations, citing concerns over its effect on the freedom of expression, conscience and association (OECD, 2017[35]). At the time, the UN rapporteur on the right of freedom of assembly and association urged the authorities not to pass the law, arguing that it might compromise the independence of association.

According to Freedom House, the press in Kazakhstan is rated as "not free", which sets it significantly apart from OECD countries (Figure 2.6). International organisations have misgivings about freedom of speech and the press. Recent changes to the criminal code may limit the role of free media and journalists' freedom of expression, including the increase in penalties for defamation introduced in July 2014 (OECD, 2017[37]). The OECD also advises the government to review existing restrictions on journalists to ensure that their implementation does not curb the independence of media (OECD, 2017[37]).

**Figure 2.6. Freedom of the Press Indicator for Kazakhstan and OECD countries, 2016**




*Note*: Where 0 = most free, based on Freedom House (2016), "Freedom of the Press 2016 Indicator", https://freedomhouse.org/report/freedom-press/freedom-press-2016.
*Source*: (OECD, 2017[37]).

As part of the World Bank's database of *Worldwide Governance Indicators*, the "government effectiveness" indicator reflects the quality of public services, the quality of the civil service and the degree of civil service independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Although Kazakhstan fares better than most of its regional peers, it falls below the OECD average, as well as below some developing countries such as China (Figure 2.7). Nevertheless, it is important to recognise the improvement that has been made: in the mid-1990s, Kazakhstan fell into the 14th percentile worldwide on government effectiveness, whereas it is now in the upper half of the global distribution.

**Table 2.3. Progress in the Government Effectiveness Index, 1996-2015**

| | Kazakhstan | Ukraine | China | Sweden |
|---|---|---|---|---|
| 1996 | 13.2 | 25.9 | 46.8 | 97.6 |
| 2000 | 25.9 | 24.9 | 53.7 | 97.1 |
| 2008 | 40.3 | 27.2 | 59.2 | 98.1 |
| 2015 | 51.0 | 34.6 | 68.3 | 96.2 |

*Source*: (World Bank, 2017[36]).

### *Kazakhstan is making strides towards more open governance*

An open and transparent government can help to align public interests with sustainable reforms and allow for improved efficiency. Open government initiatives promote transparency, accountability and participation that encourage democracy and inclusive growth. Such initiatives also improve co-operation with citizens, helping to increase trust in public institutions, and they enable more effective and coherent policy making, as well as more efficient provision of public services.

A transparent and accountable government helps institutions gain public trust and build confidence in government actions. If there is no access to information on

government activities, no control over public funds can be exercised. Citizens should be able to obtain information on government revenue and spending (OECD, 2017[37]). If this information is not accessible, officials cannot be held accountable for misuse of public funds and overspending. Moreover, opacity in public spending can increase suspicion of fraudulent activities, bribes and corruption, leading to a reduction of trust in society at large in public institutions. The same opacity can also allow for mismanagement of state property and favouritism of government decisions.

The government has taken measures to pursue an open government agenda. The 100 Concrete Steps announced by the President in 2015 include the introduction of "open government". The programme envisages a law on access to information, annual public statements of heads of agencies on achieving key objectives and publication of their reports on official websites, online access to statistical data for central level agencies, and the publication of all budget, spending and consolidated financial reports (OECD, 2017[37]). The president has called for more transparent decision-making and better involvement of citizens in the process of decision-making at all levels through the "open government" mechanism (OECD, 2017[37]).

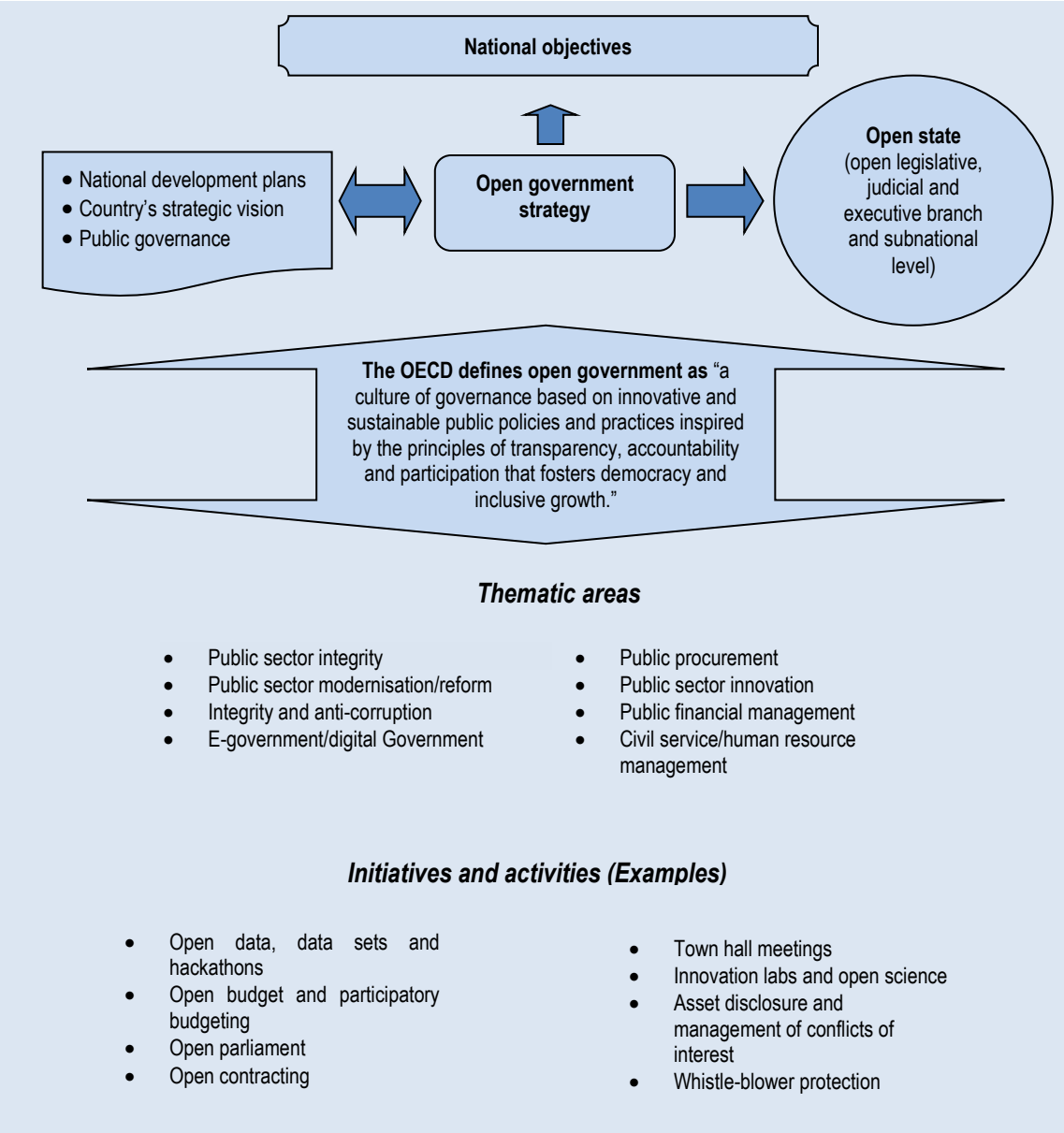
The government has developed initial reforms to promote a transparent and accountable state in line with OECD practices and achieved positive results in aspects of open government, including the adoption of laws on access to information and on public councils. In November 2015, Kazakhstan adopted the Law on Access to Information, which aims to offer citizens access to all unclassified information from state bodies. The law expands the subjects and types of information that the government must make accessible to the public. In addition, a Commission on Access to Information was established in the Ministry of Information and Communications as an advisory body to implement the law and to further public interests in accessing information.

These laws and reforms alone will not be sufficient to ensure the application of open government principles. Kazakhstan still has to make additional efforts to overcome the challenges that have been holding back the development of open government as measured by the various global indices noted above.

*Clear definition of open government*

The OECD recommends that Kazakhstan's government begin by adopting a clear definition of open government. A comprehensive government strategy outlining principles, long-term goals, medium-term objectives, strategy instruments and initiatives should also be drawn up (OECD, 2016[38]) (Figure 2.7).

**Figure 2.7. Framework for an open government strategy**

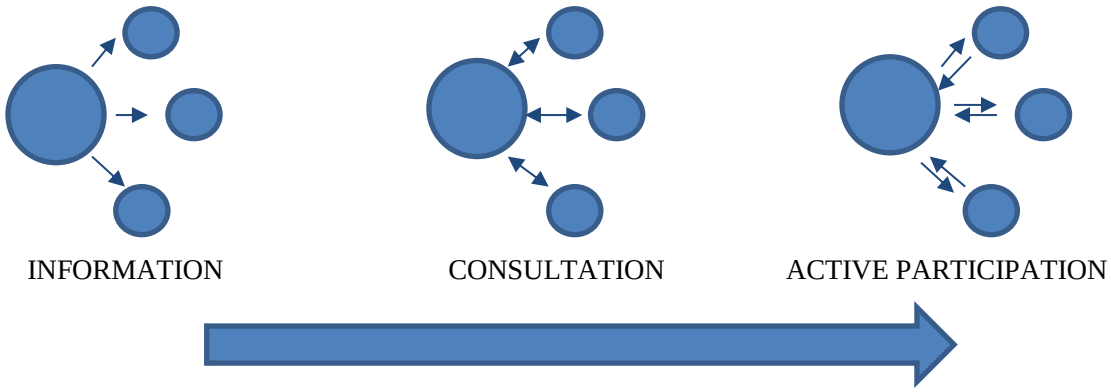



*Source*: (OECD, 2016[38]).

### *Access to information*

Access to information is recognised as a necessary legal foundation for transparency, accountability and citizen participation in policy making. It allows citizens to better understand the role of government and the decisions that it takes, as well as holding the government accountable for its decisions and policies. OECD best practices show that building access to information is an important first step for improving policy-making procedures (Figure 2.8).

**Figure 2.8. Defining information, consultation and active participation**




*Source*: (OECD, 2001[39]).

To ensure proper implementation of the access to information law, the government could provide greater clarity regarding the legislation to which the law refers. For example, Kazakhstan could clearly specify the exceptions that will apply when denying access to information; a reference to other laws, such as the law "On State Secrets", could be included. In a positive development, the government has already begun including links to legislation mentioned in the Access to Information Law online. Operational procedures could be improved by introducing requirements that the government provide written answers to information requests and designate public officials as information officers. Kazakhstan should better clarify reasons, appeals and procedures for requests that are denied. This could be achieved by making references to the applicable laws in, for example, the guidelines or manuals on the access to information law. The Commission on Access to Information should have clear legal, operative, budgetary and decision-making autonomy. Furthermore, the Ministry for Information and Communications would benefit from adequate allocations of financial and human resources and mechanisms for co-ordination with the presidency and CoG (OECD, 2017[37]).

As part of its national reforms, in its programme for e-government, Kazakhstan has developed online open government platforms on data, legal acts, budgets and dialogue, to improve access to information and allow for public consultation on policy (Box 2.2).

**Box 2.2. E-government public services and information online in Kazakhstan**

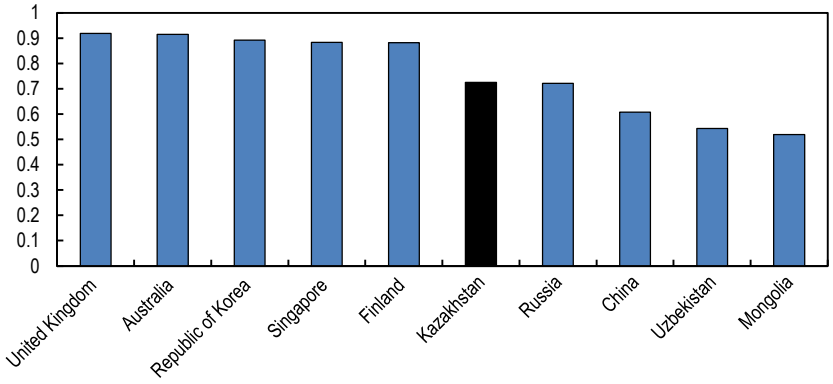
The government has introduced an online platform (http://egov.kz/) to provide public services and information. It targets different inquiries for citizens as well as business. Citizens can obtain information on, for example, family, public health, legal assistance or taxes. Since the 12 sections cover almost all the relevant aspects of state services for citizens, the platform provides a good point of departure to find the necessary information or document. On the user-friendly platform, citizens can make payments on line or download important legal documents. Should the information that is desired or required not be available, the platform offers additional web links or contact points for the institution responsible.

The platform also offers tailored information for businesses. The different sections are directed towards sectors such as agriculture, medicine, or transport and communications. In addition, businesses are able to receive the licenses or accreditation, or legal advice on real estate. For a better understanding of the aims of the government to make services, documents and information publicly available, a link has been provided to the open government webpage of the government of Kazakhstan (http://open.egov.kz). To enhance citizen engagement, the portal can also be used on an app, and citizens can express their opinion on how to improve the services further. If these approaches fail to provide the necessary information, the number of an integrated call centre is available. Offering citizens a variety of ways to obtain documents, information or licenses avoids additional bureaucracy and should increase public trust and satisfaction with public services.

*Source*: (OECD, 2017[37]).

Digital and e-government tools that make information more accessible can contribute to open government and greater transparency. E-government can also deter corruption by clarifying procedures and removing discretionary decision making (Sheryazdanova and Butterfield, 2017[40]). Kazakhstan now ranks above the world average, at 33rd out of 193 countries in the UN's *E-Government Development Index* rankings (Figure 2.9). The government has invested significantly in developing e-government tools and policies. Information on new laws and regulations is available, and many administrative procedures, such as obtaining licences, can now be handled on line.

**Figure 2.9. E-government Development Index, 2016**




*Source*: (United Nations, 2017[41]).

Implementing and ensuring effective use of e-government tools will require further effort. Citizens' lack of computer literacy and access have restricted active participation in e-government. For example, 56% of e-government users are under the age of 34 and fewer than 10% are older than 44. Older people tend to be less comfortable with online computer use (Sheryazdanova and Butterfield, 2017[40]) and more accepting of traditional governance procedures and bureaucracy (Kassen, 2017[42]). Kazakhstan should increase the availability of training for potential users to strengthen e-participation, possibly through its established network of public civil service centres. Meanwhile, both computer use and online access must increase if e-participation is to become a reality. Many rural areas have restricted and slower online access than larger urban areas. Improved smartphone options may offer a solution for internet access. Smartphone usage is now much greater than broadband internet use, but there are few available e-government applications (Sheryazdanova and Butterfield, 2017[40]). The government should follow through on its plans to increase e-government services available on smartphones.

*Public consultation*

In December 2015, Kazakhstan amended the Law on Local Governance and Self-governance to provide more opportunities for citizens' participation in decision-making at local level. It could benefit by shifting from ineffective formal processes for informing the public to an open dialogue and partnership with the public that would allow for better development of policies. OECD guidelines and good practices for public consultation can help improve citizens' participation in drafting laws and regulations. The OECD recommends that clear and simple procedures and guidelines be developed, as well as regular training sessions for citizens and public officials (OECD, 2017[37]). These can be combined with awareness-raising campaigns and information dissemination, to encourage public officials and citizens to become active and knowledgeable.

To ensure buy-in and better communication with the public, the OECD recommends that Kazakhstan consult all stakeholders, including non-governmental actors, such as citizens, civil society and the media, as well as regional and local governments. For example, the legal provisions imposing restrictions on journalists should be reviewed to guarantee the freedom and independence of the media.

## 2.4. Conclusion

Kazakhstan has recently taken important steps towards legislative and institutional reforms to address challenges in public governance. It has also prioritised the development of effective public governance in national strategies, to strengthen the government's capacity to govern and to improve policy-making processes and systems.

Nonetheless, the framework for public governance continues to face important challenges as Kazakhstan pursues its goals of long-term economic and social transformation, and, in particular, becoming a "Top 30" developed country by 2050. These challenges stem from a governance structure and processes influenced by the country's history of top-down management and hierarchical decision-making. Much has yet to be done to address the lack of transparency and accountability in the public sector and the need to strengthen integrity and tackle corruption at all levels of public authority.

Kazakhstan can enhance the effectiveness of public governance and the quality of policy processes by considering a number of measures and recommendations discussed in this chapter. Going forward, it must focus on implementing reforms and supporting these efforts through improved regulatory transparency, the rule of law and greater public consultation.

**Box 2.3. OECD Recommendations for supporting more effective public governance**

*Public governance*

- Better allocate competences and clarify roles and responsibilities to avoid duplication, create a coherent approach to policy making and ensure efficient functioning of the government.
- Introduce new tools for risk management and policy evaluation to strengthen governance and policy-making capacity.
- Encourage a "public-facing" cultural change in the public sector to improve interactions with non-governmental stakeholders.

*Devolving powers*

- Strengthen local governance capacity, to improve the accountability of local executive bodies and help them become more independent and responsible in the management of their resources.
- Allow local government greater flexibility in adjusting revenue sources to expenditures and influencing decision-making processes for budgetary issues at the local level.
- Implement plans to allow direct elections of local representatives, helping to strengthen the accountability of local authorities and involve the local public in policy processes.
- Build stronger advisory functions at the central level responsible for local government affairs, to support public institutions at the local level and co-ordination platforms across regions.

*Enhancing public sector integrity and tackling corruption*

- Reinforce the legal and institutional frameworks supporting integrity, and enact the legislative and practical tools to enforce laws and policies effectively.
- Support the implementation of legislation, by providing the necessary resources, awareness-raising and capacity building to ensure reforms are effective.
- Promote greater transparency and include non-governmental stakeholders in fighting corruption. Ensure open access to policy making for all stakeholders, including civil society, the media and the private sector.

*Supporting open government*

- Adopt a clear definition of open government through a comprehensive government strategy laying out the principles, long-term goals, medium-term objectives, strategy instruments and initiatives.
- Ensure proper implementation of Kazakhstan's access to information law by providing greater clarity regarding the various legislation to which the law refers.
- Build on e-governance development success by improving mobile and user access to information and open governance tools.

*Sources*: (OECD, 2017[15]), (OECD, 2017[35]), (OECD, 2016[38]), (OECD, 2014[21]).

# CHAPTER 3

# Building a more competitive and open economy

*This chapter looks at the challenges Kazakhstan must overcome in order to create a more open, efficient, and competitive market economy. It begins with a review of the issues that must be addressed to implement policies supporting foreign investors. It then analyses the links between competition policies and the development of the private sector in the context of the comprehensive Privatisation Plan for 2016-2020. The third section stresses the need for reforms to support the development of SMEs. Finally, the last part examines framework conditions to support the development of an innovation ecosystem.*

# 3. BUILDING A MORE COMPETITIVE AND OPEN ECONOMY

Kazakhstan has made remarkable progress in its transition from Soviet central planning to a market economy. Over the last two decades, it is has been one of the fastest-growing transition economies and in 2002, it became the first former Soviet state to receive an investment grade rating. It has also taken steps towards institutional integration in the global economy, joining the World Trade Organization (WTO) and signing an Enhanced Partnership and Co-operation Agreement with the European Union (EU) in 2015. These important steps promise to open up new markets for consumers in the country. Nevertheless, as seen in Chapter 1, Kazakhstan's growth model to date entails significant vulnerabilities in terms of resource dependence and environmental sustainability, as well as a risk of growing inequality if the country does not generate more high-productivity, knowledge-intensive employment.

To lay the foundations for more broad-based, sustainable growth, Kazakhstan needs to diversify its production and export structure and move away from reliance on extractive industries into new high productivity sectors. In particular, it must press ahead with a range of reforms to improve the business climate and create the basis for a growth model driven more by innovation and human capital, and less by natural resources.

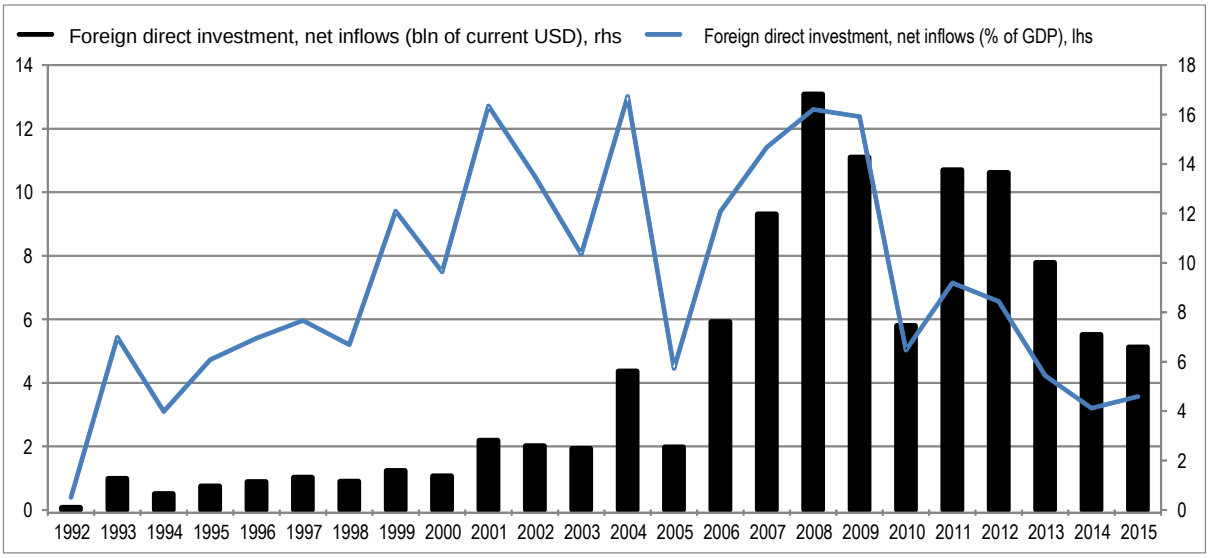
This chapter begins by examining the challenges and gaps that must be addressed to attract foreign investment into non-resource sectors. The spill overs from such investment can play an important role in stimulating innovation and productivity growth among domestic firms. This is followed by a look at competition policy and the reforms needed to reduce the state's dominance of economic life and unleash the private sector, in line with the government's Privatisation Plan for 2016-2020. The third section of the chapter focuses on support for small and medium-sized enterprises (SMEs), whose growth and development will be crucial to the emergence of new, competitive sectors. Finally, the last section examines the strategic framework for supporting the development of science, technology and innovation.

## 3.1. Improving investment policy

***Kazakhstan is working to attract more FDI to non-resource sectors…***

In many ways, foreign investment is one of the principal success stories of the Kazakh transition, but the country's investment attraction has been weaker in recent years. Foreign direct investment (FDI) inflows in Kazakhstan increased more than ten-fold relative to GDP between the early 1990s and the late 2000s (Figure 3.1) and 20-fold as a share of total fixed capital formation (OECD, 2017[2]). However, FDI inflows fell sharply after the global financial crisis of 2008-2009. They bounced back in 2011-12 before falling by more than 50% in dollar terms over the following three years to reach the lowest levels in a decade. The NBK reports that the country attracted record levels of FDI in 2016, with a total of USD 14.4 billion in net inflows (The Economist, 2017[43]).

**Figure 3.1. Foreign direct investment inflows, 1992-2015**




*Source*: (World Bank, 2017[5]).

The principal challenge, though, concerns not the scale of FDI inflows but their destination: Kazakhstan has been working hard to attract investment into sectors and activities other than natural resource extraction, which accounts for around three quarters of the total FDI stock (and around two thirds of total FDI flows), as well as to retain investors already involved in the economy. In the last five to ten years, the country has opened most economic sectors to foreign investment, allowing outside investors to participate on an equal footing with domestic players. As a result, Kazakhstan has moved closer to OECD standards with regards to the principle of National Treatment – that is to say, the government is committed to treating enterprises operating on its territory but controlled by the nationals of other countries no less favourably than domestic enterprises in like situations. There are only a few exceptions left. These include mass media, where equity limits apply; fixed-telecommunications, where authorisation is required for foreign participation above a certain threshold; agricultural and forest land; and the provision of security services.

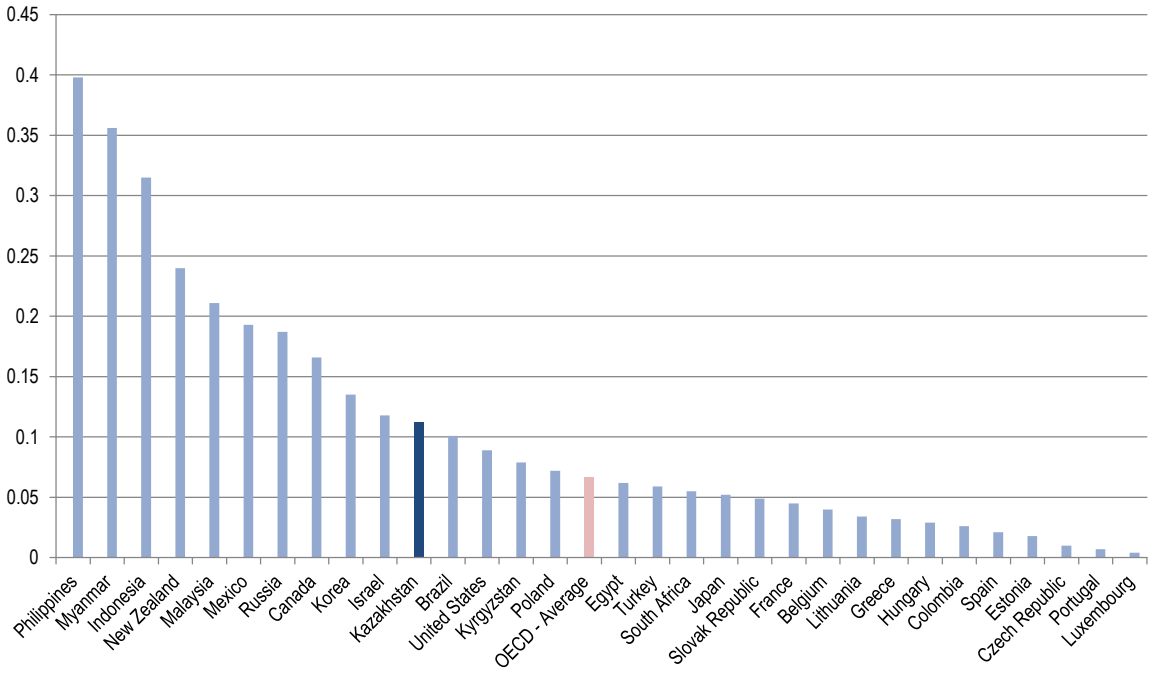
The government has also launched several initiatives aimed at improving the quality of domestic regulations and reducing the administrative burden faced by businesses. This has reduced the number and length of procedures, as well as the documents required for obtaining permits for construction, business registration and liquidation or bankruptcy. As a result of these and other efforts, Kazakhstan rose to 35$^{th}$ in terms of overall ease of doing business in the 2017 edition of the World Bank's "Doing Business" exercise. Kazakhstan was, indeed, one of the ten countries recording the most improvements in their business regulations in the two most recent editions of "Doing Business" (World Bank, 2017[44]). One element of particular relevance was the establishment of a one-stop-shop (OSS) for investors in Kazakhstan to offer them assistance in obtaining information, getting permits and licences or starting administrative procedures. Administered by the Ministry for Investments and Development, it was launched as a pilot project in 2015. However, consultations with stakeholders suggest that the OSS remains relatively unknown, both within Kazakhstan and abroad (OECD, 2017[2]). More needs to be done to raise its profile and effectiveness.

Kazakhstan has also implemented important initiatives for the protection of foreign investors. For example, the 2016 Entrepreneurial Code gives firms and investors more detailed guarantees on the protection of their rights and property, particularly against expropriation and unlawful government conduct. The Code seeks to tailor the protection it offers by defining different categories of investments, which qualify for different types and levels of protection. In addition, the introduction of two business ombudsmen constitutes another step towards increased protection for investors. Both the Investment Ombudsman and the Commissioner for the Protection of Entrepreneurs' Rights (the Business Ombudsman) were established as means of supporting companies that face explicit or implicit demands for bribes or other forms of unfair treatment and of resolving disputes expeditiously. Kazakhstan also expanded investor protection by signing a number of bilateral investment treaties and multilateral agreements. These provide protection for existing investments against expropriation without compensation and against discrimination, guarantee fair and equitable treatment, and give covered investors access to investor-state dispute settlement mechanisms.

Additionally, a wide range of dispute resolution mechanisms is available. Recent government efforts have focused on the functioning of the court system to improve the investment climate: the court system is being streamlined, and now offers special procedures for investors. In particular, Kazakhstan has established a Specialised Judicial Board under the Supreme Court for disputes related to the performance of mutual obligations under investment contracts between large investors and government bodies.[3] Such reforms support a more open and transparent environment for foreign investors.

As a result of this greater openness, Kazakhstan is getting closer to OECD levels in terms of statutory conditions according to the OECD's FDI Regulatory Restrictiveness Index[4], although the OECD average remains unattained[5] (Figure 3.2). Additional changes to be implemented within five years of Kazakhstan's 2015 accession to the WTO, such as allowing operations of branches of foreign-owned banks, will support an even more open and transparent environment for foreign investors. On 20 June 2017, Kazakhstan became the 48th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises.

**Figure 3.2. FDI Regulatory Restrictiveness score by country**



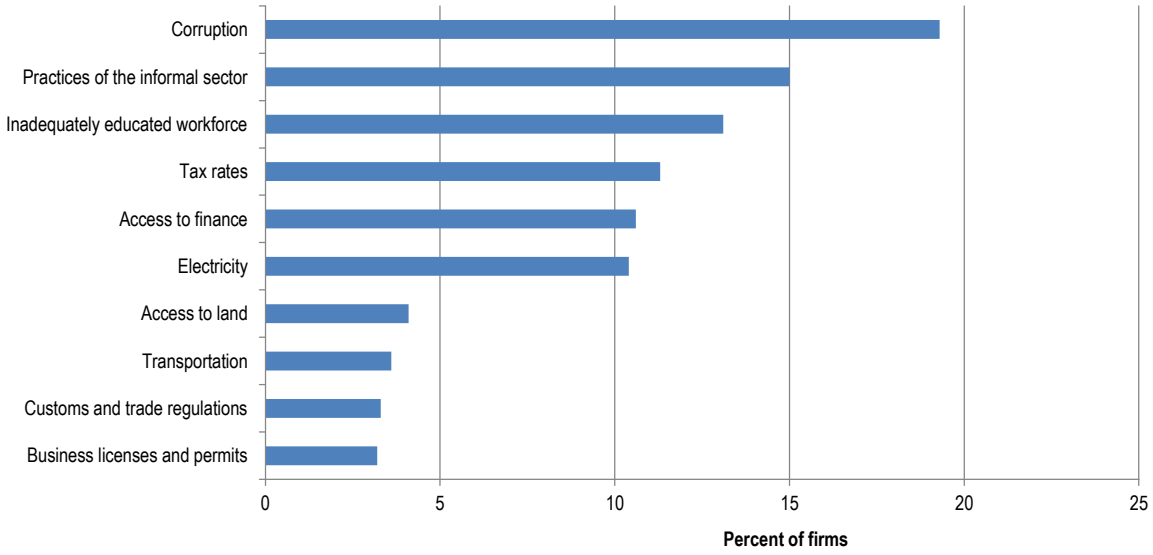

*Note*: Total FDI Index, All types of restrictions, latest data available.
*Source*: OECD FDI Regulatory Restrictiveness.[6]

### *…but more can be done to improve the investment environment*

As noted above, Kazakhstan maintains exceptions to national treatment in a few sectors. For example, legislative restrictions on foreign ownership of mass media remain and could be relaxed. The OECD also recommends greater openness to foreign investment in forestry and agricultural land, which could support agricultural development and economic diversification. On telecommunications, the government has been liberalising gradually, and mobile telephony is now dominated by foreign-owned operators. However, state-owned KazakhTelecom controls the lion's share of fixed-line telephony and broadband internet. The market power of the state-owned operator, combined with the absence of an independent regulatory authority in the sector, may have adverse consequences for the overall competitiveness of the economy. The OECD has recommended that the government consider further liberalisation here (OECD, 2017[4]).

Other ground-level conditions also continue to create constraints on investment, despite the recent steps to reduce a number of barriers. Corruption remains one of the most problematic factors for doing business in Kazakhstan (Figure 3.3). The authorities are well aware of these concerns and have identified tackling corruption as a major priority in such high-profile strategic documents as the President's "100 Steps" strategy. Their efforts in this sphere are explored in more detail in Chapter 2. However, it is critical to note, for the purposes of this chapter, that such reforms have yet to affect investor perceptions or behaviour in any profound way.

**Figure 3.3. Ranking of top business environment obstacles for firms in Kazakhstan**




*Source*: World Bank, *World Bank Enterprise Surveys.*[7]

Employment of foreign staff is another area of concern to foreign investors, who have complained about the difficulty of hiring foreign labour for most of the past decade. Kazakhstan's visa policy has been seen as presenting an unnecessary obstacle to investment. Specific conditions include labour market tests for foreign managers and specialists hired in Kazakhstan in the framework of intra-corporate transfer; limitations on the number of foreigners for each category of corporate employees; regulatory quotas for work permits; and preferential treatment of domestic suppliers in the subsoil sector. Unfortunately the new rules governing work permits (Box 3.1), which came into effect in January 2017, could still place excessive burden on foreign investors. Recent consultations with foreign business associations in Kazakhstan indicate that the work permit regime is still seen as a major bottleneck, along with transport and logistics infrastructure and an inflexible trade policy.

**Box 3.1. The 2017 rules on work permits**

The government has introduced a set of new rules on work permits (WPs), in effect since January 2017. The new rules provide some measures to support the hiring of foreign staff. For example, the WP process has been simplified and takes no longer than seven business days from the date of application. Also, work permit holders are no longer required to provide a guarantee fee deposit for the duration of their permit validity. Another important positive step is that an employer will no longer be required to go through a lengthy process trying to find possible local citizens to fill a position before a foreigner can apply for a WP to fill such a position. Finally, requirements for foreign specialists to pass a Kazakh language test have been removed.

While these measures should benefit firms needing to hire foreign workers, several provisions still raise concerns and restrict the hiring of potential foreign workers. For example, state fees have been introduced for the issue and/or prolongation of WPs, varying from around USD 1 000 to 1500 depending on the sector and category of employee. Furthermore, WPs are valid in only one region of Kazakhstan at a time; WP holders can travel to other regions for up to 90 days in a calendar year, a provision that can restrict business travel across the country. In addition, foreign executives of branches and representative offices of international companies were previously exempt from holding WPs. While citizens from the Eurasian Economic Union member countries remain exempt, other foreigners no longer are. Finally, annual quotas restricting the hiring of foreign employees have been established.

*Sources*: (Baker & McKenzie, 2016[45]); (PriceWaterhouseCoopers, 2016[46]).

A last major area of concern is responsible business conduct (RBC), as stressed in the second OECD examination of Kazakhstan's investment policies (OECD, 2017[2]). The OECD recommended that Kazakhstan develop a National Action Plan on Responsible Business Conduct, to support the activities of the newly appointed National Contact Point (NCP), in collaboration with stakeholders and in line with international good practices. Such a plan needs, among other things, to communicate clearly expectations about RBC, to provide guidance on accepted practices, and to promote policy coherence and alignment on RBC. The government may also need to support its articulation with awareness-raising events involving different groups of stakeholders. The OECD also advises including RBC expectations in FDI attraction efforts and RBC criteria in efforts to promote linkages between multi-national enterprises and domestic industries (OECD, 2017[2]).

That said, the level of awareness of RBC in Kazakhstan has increased since the 2014 OECD Report on Responsible Business Conduct in Kazakhstan. Numerous public and private initiatives have been established, with notable efforts to promote RBC by Samruk-Kazyna, the sovereign wealth fund and joint stock company; the National Chamber of Entrepreneurs, Kazakhstan's umbrella business organisation; and several civil society organisations. On a policy level, the 2016 Entrepreneurial Code includes a legal definition of social responsibility, commits the state to create the enabling conditions and not to interfere with business' activities in this area. This is a welcome development in light of previous reports that social responsibility projects were perceived by companies as an additional tax and entailed a high risk of corruption due to insufficient transparency involved in the practice. Another example

is Samruk-Kazyna's 2015 Corporate Governance Code, which calls for transparency and accountability, respect for human rights, and environmental protection and envisions the development of action plans on sustainable development.

## 3.2. Encouraging better governance of SOEs and reducing the role of the state in the economy

### *SOEs still dominate the economy*

The economy in Kazakhstan remains dominated by state-owned enterprises (SOEs) and large private industrial and financial conglomerates, a legacy of the Soviet system of central planning. In the early 1990s, 87% of the workforce was employed by SOEs and privatisation was still a structural change Kazakhstan had to face. While there has been considerable reform since then, redefining the state's role in the economy and spurring private-sector development are both important elements in the unfinished business of transition.

There is no generally accepted method for assessing the state's share in GDP, and any such calculation depends greatly on how entities with mixed public-private ownership are treated, as well as those that are controlled by partially or wholly state-owned bodies, as well as how value is allocated in large hydrocarbon projects in which the state is involved. That said, virtually all estimates point to a much larger role for the state-owned and quasi-state owned entities than is typical of OECD countries (OECD, 2017[47]). Many of the country's leading sectors are dominated by companies owned by Kazakhstan's National Holding Samruk-Kazyna, including the extractive sector, transport and storage, and information and telecommunications. Although the banking system is dominated by privately owned entities, IFC (2017) finds that the state, through fully- and quasi-state owned entities, is both the largest depositor and the largest borrower (IFC, 2017[48]). Altogether, Samruk-Kazyna and its subsidiaries account for an estimated 30% of total employment (IFC, 2017[48]). There were 27 672[8] registered state-owned legal entities in Kazakhstan as of 1 January 2015, of which 1 002 employed more than 250 people. The government put in place a privatisation programme aiming to decrease the share of SOEs' gross value added to GDP to 15% by 2020.

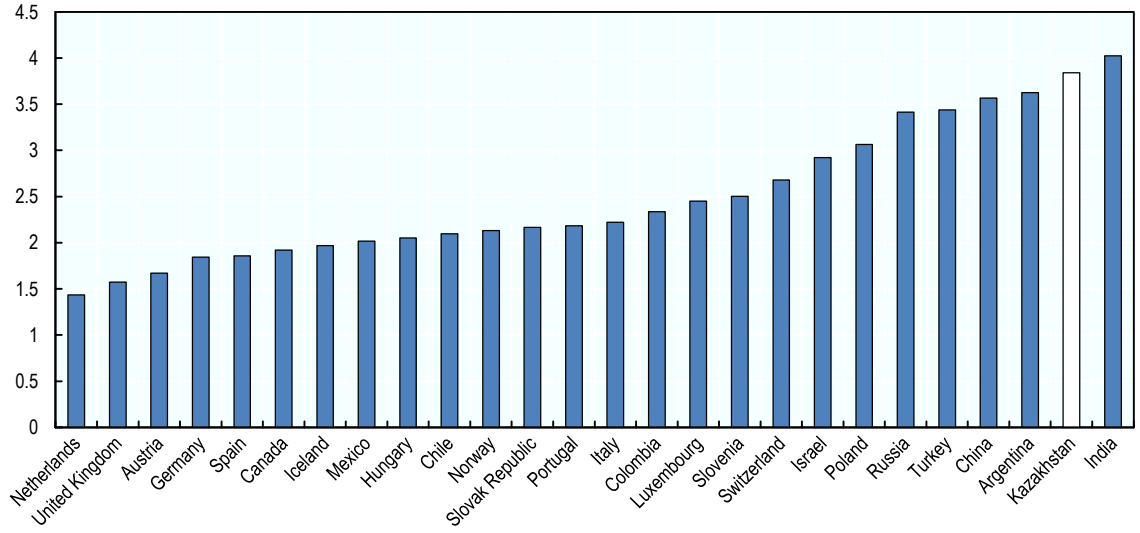
Indicators show a high level of state involvement in the economy compared to OECD members. The State Control dimension of the OECD indicators of Product Market Regulation[9] shows that SOEs are the dominant form of state control in Kazakhstan's economy, and also that this control is very strong (Figure 3.4). State control is particularly apparent in network industries, as the government controls 100% of shares in the largest firms in the gas distribution, transport, postal, mobile services and electricity sectors. The state also owns firms across most other sectors, including oil and gas extraction, telecommunications, petroleum refining, financial services and healthcare. However, in these sectors, this presence is not significantly higher than in OECD members, where the state likewise plays the largest role.

Such a strong state presence in the economy makes it harder to ensure a level competitive playing field between SOEs and private firms, and undermines the overall efficiency of resource allocation. SOEs have generally been less profitable than other firms (OECD, 2017[49]), and enterprises with foreign ownership report that state-owned companies often enjoy better access to resources, markets, credit, licenses etc. than private enterprises. SOEs also enjoy readier access to finance

compared to private firms and they are able to draw on the government's financial reserves.

**Figure 3.4. Kazakhstan has a high level of control of the economy**

Product Market Regulation State Control Index, latest available




*Source*: (OECD, 2017[47]).

### *Competition law and policy is highly regulatory*

Kazakhstan's geography creates important challenges when it comes to developing competition in markets and promoting diversification. Low density of settlement and long distances to major markets both weaken competition – consumers of intermediate inputs and final goods have less choice of potential suppliers and fewer opportunities to enhance productivity by benefiting from the so-called "agglomeration economies" that characterise larger, denser economies. These two factors are mutually supportive, insofar as it is large market size that makes it possible to realise economies of scale without undermining competition. Longer distances and concomitant higher transport costs have two major implications for tradable producers in geographically remote regions, both of which reflect the role of competition:

- Constraints on accessibility constitute a form of protection for producers. Other things being equal, local producers enjoy a competitive advantage in such places, since would-be importers face higher transport costs. However, other factors often overwhelm this advantage, since local producers in a small, low-density market may not be able to realise the economies of scale and scope needed to compete with imports. Even if they do, the result is likely to be higher prices for local consumers, including not only households but also firms reliant on locally produced inputs.
- Long distances and high transport costs make it harder for local producers to export to larger, external markets. To export, they need a productivity advantage great enough to offset the higher transport costs. Being as good as their rivals is not good enough; they have to be better. Otherwise, they may have little

incentive to innovate and increase productivity, and little opportunity to increase output and employment. Firms oriented towards such distant markets need to achieve this productivity edge in spite of the costs outlined above, specifically the weak competition among input suppliers and providers of non-tradable services that raises the input costs for would-be exporters of tradable goods.

Taken together, these two factors imply that transport costs reduce the scope for specialisation according to comparative advantage, one of the critical drivers of gains from trade. While low-density places often have lower prices for land – and thus for many non-tradables and space-intensive activities – prices for other goods and services may be higher than otherwise, owing to weak competition. This is especially the case where high transport costs and the potential for suppliers to engage in price discrimination may more than offset the impact of low land/non-tradable prices. Perhaps the most important policy implication of this for Kazakhstan is that the cost of policies and regulations that impede competition is likely to be *higher* than it would be in many OECD countries.

Yet Kazakhstan's competition policy framework is still in need of reform. Perhaps one of the main characteristics and most important weaknesses of this regime is its highly "regulatory" approach. The Committee on Regulation of Natural Monopolies and Protection of Competition (KREMZK) has a wide area of responsibilities, including regulation, consumer protection, competition law enforcement, and competition advocacy and assessment. But this breadth of responsibility can leave the committee overstretched relative to the available resources. Also, the dependency of KREMZK on the Ministry of National Economy should be reassessed. It could be established as an independent state authority in order to minimise the risk of conflict of interest. Although the antimonopoly authority has an obligation to publish information on decisions on its official website, some aspects of competition policy lack transparency, most notably when it comes to control of concentration and the failure to disclose decisions on mergers. The law does not provide for effective cartel detection tools and its enforcement instruments are still far from adequate (OECD, 2016[50]).

However, recent efforts have been undertaken in the areas of non-dominance and monopolisation policies. In January 2017, price regulation was abolished, except in a few sectors where the state price regulation of services (goods, works) of subjects of so-called "natural monopolies"[10] remains (railway transport, electric power, gas supply and airport services), and new tools of antitrust response were introduced[11]. The Entrepreneurial Code of Kazakhstan provides a list of cases of state regulation of prices and tariffs in Article 166. The "State Register for Dominant Undertakings" was also abolished by the law of 28 December 2016, following previous OECD recommendations (OECD, 2016[50]). According to KREMZK, the partial abolition of price regulation was adopted in order to comply with the principles and standards of the OECD.[12] Finally, Kazakhstan has introduced some new tools to combat cartels, such as "raids at dawn".

***Kazakhstan can do more to align SOE governance with international standards***

The issue of defining the state's role in the economy – and, in particular, of circumscribing the role of SOEs, impinges on the country's competition framework. In 2008, Kazakhstan adopted a law on Competition and Natural Monopolies and Regulated Markets, which has limited the involvement of the state in the market economy, requiring prior permission from the Committee on Regulation of Natural

Monopolies and Protection of Competition before public entities establish new enterprises. The law also defined the situations in which the state may participate directly in economic activity and prohibited a number of anti-competitive actions by SOEs that could lead to restriction or elimination of competition, or infringement of consumer rights. The Entrepreneurial Code that entered into force on 1 January 2016 incorporates and supersedes the 2008 law. It provides for a preliminary review by the antimonopoly authority of the market entities' agreement, the right of the antimonopoly authority to send a "notice" rather than conduct an investigation, and the possibility for a company that is subject to an antitrust investigation to launch a review by a conciliatory commission of a draft report on antitrust compliance (OECD, 2017[2]).

While these laws are a good starting point, institutional and managerial issues in the SOE sector also need to be addressed, in respect of both assets slated for privatisation (see below) and those likely to remain in state ownership for the long term. The organisation of the state's ownership function is dispersed between the Ministry of Finance and the Ministry of National Economy, and there is as yet no separation between ownership and regulatory functions. Ministers also maintain influential positions on the boards of directors of national managing holding companies that they are charged with regulating. The risk of conflict of interest is high.

Kazakhstan has a general policy of striving for better corporate governance in both the public and private sectors. With the assistance of the OECD Working Party on State Ownership and Privatisation Practices, Samruk-Kazyna recently issued a Corporate Governance Code to be applied in all companies of the group where state ownership exceeds 50%. Each of the national managing holdings as well as other state-owned firms also adopted corporate governance codes. The government updated the 2007 Model Code of Corporate Governance in November 2016 to take into account OECD and G20 standards of corporate governance.

However, the organisation, administration, governance, and enforcement of rules and regulations of those entities remaining in state ownership should be aligned with internationally agreed good practices, chief amongst them the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which recommend a "clear separation between the state's ownership function and other state functions that may influence the conditions for state-owned enterprises, particularly with regard to market regulation". In principle, this separation is reflected in the Model Code and the code for Samruk-Kazyna. The Guidelines add that the policy should define the overall rationale of state ownership, the role of the state in the governance of companies and the roles and responsibilities of government offices involved in the implementation of the policy. (OECD, 2015[51]).

To address the issue of institutional organisation of the SOE sector, the Guidelines recommend that the exercise of the Government's ownership rights – as distinct from its policy and regulatory functions - be centralised in a single ownership entity (Guideline II.D). Kazakhstan's recent laws on the Sovereign Wealth Fund or on State Property stipulate the roles and responsibilities of the relevant state authorities but did not represent a general ownership policy, which is yet to be developed and disclosed.

Financial reporting and auditing practices in the SOE sector have improved. External auditors in national managing holdings and national holdings are appointed by the boards of directors, the activities of which are also audited. Companies' annual

reports are comprehensive and often follow international standards. The State Property Committee receives performance reports from all companies on a quarterly basis. To further enhance alignment with international standards, an annual aggregate reporting system by the state could be established, which would provide information on the state ownership policy and its implementation practices as well as the value of the SOE sector, and financial and non-financial performance of SOEs. (OECD, 2015[51])

***Kazakhstan must examine the orientation of its privatisation programme***

Efforts to promote and implement privatisation have also been made. The Privatisation Programme 2014-2016 was launched to "consolidate the foundation of the market economy" and was followed by the current Comprehensive Privatisation Plan for 2016-2020 (Box 3.2). Adopted in December 2015, the plan contains a list of 878 entities for privatisation.[13] Those which will not be privatised will be subject to reorganisation or liquidation. As of April 2017, 68 large companies were designated as priorities for privatisation. The remaining 810 entities are a very mixed group, including companies owned by the state, the national holdings and national companies, as well as municipalities. According to Kazakhstan's official statistics, from June 2014 till 1 June 2017 440 assets had been sold for KZT 125 bln. According to the Comprehensive Privatisation Plan, a total of 296 assets had been sold by 16 October 2017 for KZT 116.1 bln.

The Comprehensive Privatisation Plan for 2016-2020 is bold in scope but could be grounded in a more explicit strategic vision and a clearer statement of the ultimate objectives of privatisation. This latter point is of particular importance, because privatisation is typically intended to achieve a number of goals, and there are sometimes tensions among them. Broadly speaking, these can be grouped under three headings:

1. *Restructuring and investment*. The overriding aim of privatisation is to promote efficiency by creating an incentives-based market economy. Over the long term, realisation of the putative economic benefits of privatisation requires that enterprises pass into the control of owners who have both the means and the incentives to restructure their activities and to invest in their efficiency and productivity.
2. *Fiscal relief*. While more attention has focused on the potential (or lack thereof) of privatisation as a source of revenue for cash-strapped state budgets, privatisation is also seen as a means of reducing expenditures by cutting ailing firms off from the state budget and thereby compelling them to sink or swim (hardening their budget constraints). Shedding the burden of what were reckoned to be hopelessly non-viable enterprises was one of the major motives underlying early privatisation in a number of transition countries.
3. *Social objectives*. The above considerations are often balanced against social policy objectives, such as job preservation or the resolution of environmental problems by the new owners.

Clearly, these objectives can conflict with one another in specific cases, particularly if the authorities feel a need to privatise quickly. If speed is given priority, equity may suffer and revenue-raising certainly will. Rapid sales will tend to depress prices because too many assets hit the market too quickly and because enterprises are sold

in an unrestructured state. Demand (and thus prices) will further be limited if attempts are made to prevent too much foreign participation. However, the state budget may still benefit if rapid privatisation reduces expenditure. Thus the revenue losses from speedy sales must be set against the costs of retaining enterprises in the state sector for a longer period. Governments must also decide whether to restructure firms and then privatise them (maximising sale prices) or to privatise first and leave restructuring (and its associated costs) to the new owners and the market.

Revenue-raising and social objectives, too, are in obvious tension, particularly when the enterprises constitute the economic backbones of what are, essentially, one-company towns – a common legacy of the Soviet system and one that Kazakhstan confronts. Sale prices will fall as employment preservation conditions and other social "strings" are attached. An emphasis on equity may reduce both privatisation revenues and the prospects for transferring assets to owners with the means and motivation to restructure and invest. It is hardly surprising, therefore, that privatisation policies in Kazakhstan – as in all post-communist states – have involved a variety of methods, as policy-makers sought to juggle these different goals.

***Kazakhstan's industrial structure creates some specific challenges***

Kazakhstan's privatisation challenges are further complicated by its industrial structure. An unusually large share of industrial production is generated by sectors that are capital intensive and characterised both by a high degree of asset specificity and significant economies of scale (above all, hydrocarbons and metals). Such sectors tend to be subject to very high barriers to entry and exit, and are generally dominated by a small number of large companies. Regardless of who owns them, such companies tend to be very demanding of the state: their size means that they are likely to be politically powerful and their asset specificity is likely to make them relatively inflexible. Faced with changing circumstances, they will find it difficult to adapt and will therefore lobby the government to modify its policies in order to support or protect them. That is why many governments, particularly in emerging economies with limited state capacities, find state ownership of such sectors appealing.

If such firms are to be privatised, state leaders may fear exploitation by private owners. Domestic private owners will be very powerful and conflicts among them could prove difficult to contain and might even be destabilising: one need only recall some of the conflicts among "oligarchs" in various post-Soviet countries to appreciate the reality of this concern. Foreign ownership, by contrast, can be seen as risking the transfer of considerable power to outsiders, particularly if the foreign buyers are closely linked to foreign states; this is a very real consideration in respect of the likely buyers of some of Kazakhstan's industrial assets. The government may also fear "state capture".

**How *privatisation is done can matter as much as* what *is privatised***

The foregoing does not mean that Kazakhstan should not proceed with an ambitious privatisation programme – a substantial reduction in the state's role in the economy is indeed desirable – but it does mean that it will need to pay particular attention not only to *how* privatisation sales are conducted but also to the broader institutional and regulatory context: above all, it will be important to avoid a situation in which state dominance of strategic sectors gives way to market power or even monopolies in the hands of private owners.

As regards privatisation processes, the OECD recommends that the programme be organised under a single co-ordinating actor. The process should be disclosed regularly to both the Parliament and the public. It should be controlled ex-post by an independent body reporting to the Parliament, with limited political interventions. Lastly, the process should be progressive with the allocation of adequate resources to prepare the assets for privatisation, in particular with proper sell-side due diligence (on the market opportunity, the quality of the client's portfolio, the assessment of operating assets and any risks linked to changes in the regulatory environment for example). The OECD has identified the recent experiences gained in several OECD countries. The report is intended to assist policy makers and public officials considering whether and how to privatise state owned enterprises (OECD, 2010[52]).

The success of the privatisation plan will rely heavily on the appetite of foreign investors, as the domestic demand for privatised state-owned assets remains very limited. It should be executed through and with the assistance of external independent advisors and consultants. These should be appointed through a competitive and transparent process, and avoid conflict of interests with a clear separation of their activities of evaluating and providing strategic advice on assets and that of selling. The privatisation of 878 companies should be based on a thorough market analysis, relying on the principles of the "Yellow Pages Rule" and inventory check.[14] Sales to foreign SOEs or entities substantially controlled by foreign states should also be approached with caution.

Like all other firms, privatised companies should function in a rules-based environment, provide equitable treatment of shareholders, operate with transparency and disclosure, and improve relationships with stakeholders. Private firms and their owners should treat employees, creditors and affected communities fairly and equitably.

**Box 3.2. The privatisation programme in Kazakhstan**

The Law on State Property of 2011 was amended in 2015 to provide regulation to the ongoing privatisation programmes and in particular the comprehensive Privatisation Plan for 2016-2020. Several conditions are therefore included in the amended law, providing the purchaser and seller with a set of obligations, and providing for the intervention of independent external advisers on all direct targeted sales.

One of the main targets of the Comprehensive Privatisation Plan for 2016-2020 is to reduce the SOE share in gross value added to GDP to 15% by 2020. This privatisation target is very ambitious: the Plan comprised 878 entities as of April 2017, and the timeline (less than 5 years) seems optimistic given the scale and complexity of the assets at stake. This is even more challenging in the current context with sanctions on Russia, lower oil prices and depreciation of the Tenge.

Among these, the so-called "Top-68" companies are composed of large organisations of republican ownership, national managing holdings, national companies and other juridical persons and communal organisations (Register of State Property, 2017[53]).

*Source*: (OECD, 2017[47]).

## 3.3. Maximising the entrepreneurial spirit and SMEs potential

### *The SME sector is still underdeveloped*

Privatisation constitutes only one aspect of Kazakhstan's private-sector development initiative. No less important, particularly in terms of economic diversification, are policies to encourage the emergence and growth of small and medium-scale enterprises. According to official statistics, SMEs in Kazakhstan currently account for only 26.8% of value-added and 31% of employment, compared to figures of 57% and 60-70%, respectively, in most OECD economies. Most (around 60%) SMEs in Kazakhstan operate in low value-added sectors (ILO, 2015[54]); (OECD, 1997[55]); (OECD, 2016[50]). Only 5.2% of Kazakh SMEs are exporters, as compared to 22.8% of SMEs in Eastern Europe and Central Asia overall and 19% across all upper middle income countries (OECD, 2018[56]). Additionally, recent research conducted by the Committee on Statistics suggests that most SMEs are unlikely to become engines of innovation and growth. Many engage in subsistence entrepreneurship rather than in transformative entrepreneurship (OECD, 2017[16]). SME innovation rates, despite a steady increase in the last decade, are low, as demonstrated by the relatively low percentage of income stemming from new or significantly improved products (OECD, 2017[16]).

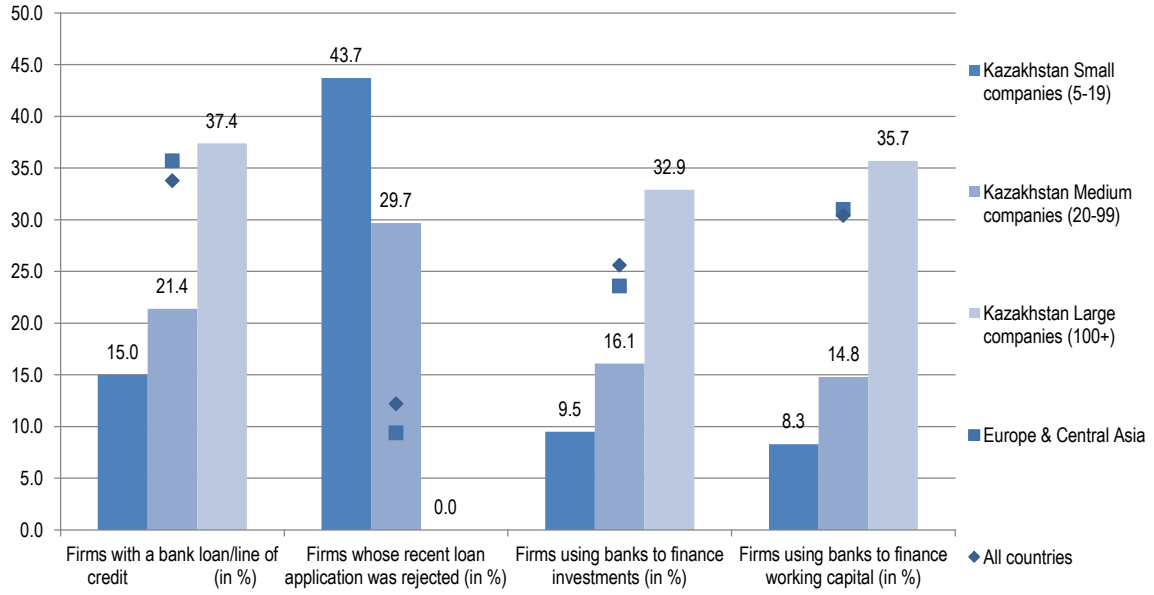
However, the entrepreneurial spirit is widespread, if not yet fully tapped. The Global Entrepreneurship Monitor survey shows that almost 75% of the population sees entrepreneurship as a desirable career choice, and 82% sees it as a high-status option. Kazakh people are also confident that early-stage entrepreneurs can quickly employ a rather large number of employees. In these respects, they offer a more positive assessment than citizens of most of the BRICS and EU countries. However, only 27% perceive *opportunities* for entrepreneurship (Global Entrepreneurship Monitor, 2016[57]).

### *SMEs would benefit from better framework conditions for business*

Several constraints must be relaxed if SMEs and entrepreneurs are to realise their potential. First, SMEs are exposed to unfair competition from the informal sector, which accounts for close to 20% of total employment (OECD, 2017[4]).[15] Secondly, approximately 13% of the firms surveyed by the World Bank Enterprise Survey point to the "inadequately educated workforce" (World Bank, 2013[58]) as the main obstacle they face, a higher share than the average for Eastern European and Central Asian countries. Thirdly, only 19% of SMEs held a bank loan or a credit line in 2014, down from around one-third in 2008-09, a drop that in part reflects the troubles the financial sector has experienced in recent years. This was the fourth-lowest figure recorded among the 29 countries in Eastern Europe and Central Asia covered by the Business Environment and Enterprise Performance Survey (BEEPS) surveys. Moreover, the share of bank financing of asset purchases fell from 17.7 to 8.8% over the period covered by the surveys, while the share of firms reporting that they needed a loan but were discouraged from applying rose from less than half to around 60% (EBRD, 2015[59]). Firms outside Astana and Almaty face particularly tight credit constraints. A large proportion of businesses had recent loan requests rejected, which might be linked with the very low number of financial audits and high collateral requirements (Figure 3.5). Overall, the BEEPS data suggest that the share of credit-constrained MSMEs stood at around 67% in Kazakhstan, compared to 54.4% for the rest of the CIS and to 35.7% in the OECD-8 countries.[16]

SMEs are the first to suffer from instability in the banking sector. The country's banks have performed poorly since the 2008-09 financial crisis and were adversely affected by the slowdown following the drop in commodity prices in 2014-15. This has been an obstacle to recapitalising the weaker institutions, pushing the sector towards consolidation. Many smaller banks depend on a limited number of clients, and sometimes a single customer, making them vulnerable to runs or sudden changes in corporate policy. The authorities have taken action, including the acquisition of stakes in several banks, the creation of a Problem Loan Fund and the facilitation of non-performing loans and SMEs lending support, but the banks' access to foreign capital has been curtailed and the costs of servicing their borrowing have increased. For SMEs, this has meant a significant reduction in the availability of bank credit.

**Figure 3.5. Obstacles on access to finance for SMEs**




*Source*: Adapted from (World Bank, IFC, 2013[60]).

### *Several relevant SME policies are in place, with some gaps in their scale*

The development of domestic entrepreneurship and SMEs is an important pillar of Kazakhstan's long-term diversification and economic growth plan. Kazakhstan has outlined policy targets in the Strategy 2050 as well as the 2015 Entrepreneurial Code and the previous 2006 Law for Private Entrepreneurship. The government aims to double the share of SMEs in GDP by 2030 (to 36% from the baseline of 17.5% of GDP at the end of 2011) and to 50% of GDP by 2050. A significant scaling-up of programmes to reach more potential entrepreneurs or a significant improvement in outcomes to increase the number of start-ups that can sustain themselves will be required. The government should also embark on the following actions:

- create a system to stimulate and support entrepreneurship and SME activity, including related areas of research and innovation;
- minimise required regulation such as the need for many permits and licensing;

- establish a system to hold government officials more accountable for removing unnecessary barriers for SMEs;
- improve support mechanisms for the protection and promotion of domestic producers, particularly in consideration of Kazakhstan's participation in the Eurasian Economic Space;
- establishes the necessary framework conditions and prerequisites to support individual entrepreneurs and small businesses to grow into medium-sized enterprises; and
- strengthen domestic entrepreneurship through wide-scale privatisation of non-strategic enterprises and services.[17]

These broad national strategic directions and high-level targets set the framework for entrepreneurship and SME policy formulation. Further articulation of policies in favour of entrepreneurship and SME development also comes from the overarching State Programme for Accelerated Industrial-Innovative Development of Kazakhstan (SPAIID) (Republic of Kazakhstan, 2010[61]), which is followed through in the policy measures of the Business Road Map (BRM) 2020 and other state programmes. However, Kazakhstan does not have a singular, comprehensive document outlining entrepreneurship and SME development policy. There is a lack of clear policy rationale, directions and objectives that address market, government or systemic failures.

Recognising this, the government has recently stepped up its support for SME development and entrepreneurship. The Entrepreneurship Development Department (EDD) of the Ministry of National Economy leads this policy and plays a critical role in the co-ordination of state bodies to improve the business environment and reduce state control over private enterprises. It also co-ordinates SME and entrepreneurship support in the regions. Other institutions are in place, such as the National Chamber of Entrepreneurs, established in 2013 to consult with organisations representing SMEs. A Business Ombudsman, whose mandate is to receive and act on complaints from business owners about unfair treatment by government authorities, has also been introduced in the Entrepreneurial Code.

The policy delivery structure that co-ordinates public actions, rests substantially on three organisations: the DAMU fund, which concentrates on financial support; the National Chamber of Entrepreneurs, which supports a network of Entrepreneurship Support Centres providing training and consultancy; and the National Agency for Technological Development, which supports innovation. The government has also enshrined regulatory impact analysis in legislation, putting in place a mechanism for co-ordinating entrepreneurship and SME policies, and streamlined policy delivery arrangements while reorganising support agencies under Baiterek. These are important steps ahead of putting in place a strategic policy framework promoting SME development. Finally, a number of dedicated actions for entrepreneurship among women, youth, the unemployed and people with disabilities are contained in the BRM 2020 and the ERM 2020. Participation in these programmes is relatively limited, however. If these initiatives are to succeed, more must be done to develop skills and entrepreneurship, the main enabler of SME growth, alongside access to finance.

The government has initiated a wide range of pilot programmes that have much in common with interventions found in OECD countries. These include measures for SME management training and consultancy, business advisory services, support for

special social target groups (e.g. women), SME internationalisation, and innovation. Box 3.3 outlines the main programmes in Kazakhstan.

A strong emphasis should therefore be put on the implementation and scaling up of these programmes, in particular those addressing access to finance. The DAMU Entrepreneurship Development Fund – the main agency responsible for the implementation of public programmes for SME financing – offers lines of credit support to second-tier banks lending to SMEs, and provides interest rate subsidies and loan guarantees. But both the total budget and loan amount of DAMU programmes are insufficient to address the financial needs of SMEs, which are only partly reached by these programmes. Non-bank financial instruments (private equity and venture capital funds, leasing companies, factoring institutions, microcredit organisations, etc.) are in their infancy and should be developed, and actions are also needed to develop financial literacy and to co-ordinate financial instruments with non-financial support.

### *SME policies need to be better linked with other policy domains*

*Overall co-ordination framework*

In spite of the deep commitment of the government and the clear articulation of policy priorities for entrepreneurship and SME development, Kazakhstan lacks a co-ordination mechanism to lead the implementation of SME and entrepreneurship policies. Such a structure would help identify and respond to gaps in the current policies and could help co-ordinate and prioritise intervention. It could be underpinned by an action plan for implementation in particular in the area of access to finance. The BRM 2020, the major programme for SMEs and entrepreneurship, allocates the lion's share of its spending to interest rate subsidies, which, together with financing of the infrastructure, account for 85% of the allocation of the BRM funds (OECD, 2018[56]).

**Box 3.3. Kazakhstan's pilot programmes in support of SMEs**

Policy and programme activity for SMEs and entrepreneurship were boosted significantly with the 2006 law on Private Entrepreneurship, which has recently been superseded by the 2015 Entrepreneurial Code.

The government's Programme on the Development of Productive Employment and Large-Scale Entrepreneurship for 2017-2021 focuses on providing access to microfinancing for start-ups and existing projects in rural areas, small towns and cities on a preferential basis for up to seven years. It aims to create opportunities for productive employment by providing free vocational and technical education based on market demand, workplace-based youth practice training of up to six months for people under 25 years old, and one-year professional training courses for self-employment and unemployed people (the "Business Bastau" Programme).

The main support for exports has been provided by the National Export and Investment Agency (Kaznext Invest). Following recent substantial restructuring, with the creation of two separate agencies from Kaznext Invest ("Kazakh Invest" and "Kazakh Export"), the government is developing and launching a programme to assess and identify companies with export potential, and is expected to help SMEs build their investment potential.

To support the development of SME workforces' skills, Kazakhstan is developing and updating professional standards in the framework of the project "Development of Working Skills and Stimulating of Jobs" with the support of the World Bank. Efforts to support entrepreneurship training and skills are also ongoing. A study on the "Evaluation of the Effectiveness of Existing State Programmes" is currently being conducted. Taking into consideration the weak results achieved by the School of Young Entrepreneurs, the government introduced amendments to the Integrated Programme on Entrepreneurship Support and Development in order to extend this programme, and it has established an increased level of mentoring, coaching, incubation and services at the initial stage of business operations.

Kazakhstan started to develop some specific programmes for targeted population groups, in particular towards women entrepreneurs. The government is monitoring its impact in the context of the EBRD Women in Business Programme and is increasing quotas for the participation of women in such programmes.

In an effort to improving access to finance for SMEs, the government committed to increase the reliability, completeness and relevance of information provided to the Joint Stock Company (JSC) State Credit Bureau. The National Bank of Kazakhstan adopted the Programme on Increasing Financial Literacy for the Population for 2016-2018 to address the need for developing financial literacy and the capacity of SMEs, to improve reporting to financial institutions and information exchange between banks and SMEs.

*Source*: (OECD, 2018[56]).

*SME development in the regions*

The diverse conditions of Kazakhstan's regions also call for the adaptation of policy tailored at the regional level. Kazakhstan exhibits many regional disparities in its economic structure. Regional inequality in GDP per capita is particularly high. It exceeds the level of regional inequality of all OECD countries and that of several large non-member economies such as Colombia, Brazil, Indonesia and Ukraine (OECD, 2017[15]). There are also strong spatial variations in the business environment: the factors cited by firms as the biggest barriers to doing business vary greatly across regions.[18] To address these disparities, Kazakhstan should better align regional policy and SME policy – in particular, the BRM 2020 could be better co-ordinated with spatial planning. A more transparent mechanism should also be developed for the allocation of funding among the regions, based on strategic priorities. Finally, akimats (the sub-national administrations)[19] should be able to tailor policies to the needs of the individual SMEs in their regions, in particular to create a better business environment for those actively engaged in cross-border trade and exposed to competition both on pricing and quality from companies from the Eurasian Economic Union (Vinokurov, 2017[62]) or China. Local targeted support could focus on export promotion, quality improvement and skills development.

*Entrepreneurship in education*

The creation of a stronger culture for entrepreneurs should start in the education system (Wong, Ho and Autio, 2005[63]).[20] While efforts to develop entrepreneurial skills in education are starting to emerge in Kazakhstan, they need to be introduced more comprehensively. Only modest attempts have been made to integrate entrepreneurship into the primary or secondary curriculum, and entrepreneurship education is not widespread at the tertiary level (OECD, 2018[56]).

The recently established network of 188 Entrepreneurship Support Centres in Kazakhstan constitutes the main channel for offering information, training and consulting services to entrepreneurs. Further efforts should be carried on to meet the government's ambitious targets to increase the number of clients: increasing the number of these centres and offered services would support this ambition, and more promotion and awareness-raising activity among entrepreneurs and SMEs could build demand. The introduction of an SME diagnostic tool would help clients better identify their needs and increase the efficiency of these consultations.

Existing entrepreneurship training schemes in Kazakhstan could be more efficient. Two of them in particular, have shown only very limited results. Only 6.4% of those trained in the School of Young Entrepreneurs, which aims to encourage the innovative and entrepreneurial capacity of young people, went on to create new businesses. Similarly, the Business Adviser projects, which offer short-term group-based training conducted by professional trainers, have hitherto resulted in relatively low participation, with only a small minority of trainees able to start a new business after taking the course. Potential improvements to such programmes could include better screening while allowing wider entry to participants to the Business Advisor programme, extending the duration of courses and establishing better linkages with business incubators for promising projects, as well as facilitating access to finance. Other programmes on SMEs management training assist SMEs to modernise and upgrade their business and production processes.

Finally, entrepreneurship education should be embedded in a broader set of educational curricula, in particular in engineering, medical or agricultural schools to develop new high-productive activities. An even more detailed picture of the role of small economic units can be obtained from the SME survey of the Committee of Statistics. Only a relatively small percentage of SMEs is engaged in innovation activities involving the design of new solutions, let alone in non-technological innovation, such as those in the areas of management and marketing. These types of innovation often require tailored support schemes that combine financial and nonfinancial (qualitative) measures. Regional authorities are also well-suited to play the role of a facilitator and broker to expand the scope, density, fluidity and sophistication of linkages, networks and other forms of co-operation between different HEI (higher education institutes), national and foreign large companies and other stakeholders such as non-governmental organisations (NGOs). Initiatives such as DAMU innovation grants, which targeted 668 entrepreneurs supported between 2012 and September 2015 (OECD, 2017[16]), should be scaled up and be closely linked to education institutes to ensure proper dissemination and sustainability.

*Developing FDI-SME linkages*

More needs to be done to link FDI to the domestic economy, particularly through linkages to SME suppliers (OECD, 2013[64]). A strategy for improving FDI-SME linkages should be drawn up (Box 3.4) and should include co-ordination and information flows to attraction and retain FDI. Framework conditions, including regulations related to fair and reasonable procurement, as well as regulations on limiting the administrative burdens on SMEs should also be considered. At the local level, Kazakhstan should develop an institutional framework and responsibilities to support linkages and aim at better understanding both local SMEs and foreign investors and their respective needs. The creation of a supplier database at the National Chamber of Entrepreneurs could help strengthen FDI-SME links, as would closer co-ordination of the activities of the newly-established regional Investor Support Centres with Kazakh Invest FDI aftercare services. Regional strategies to improve these linkages with pilot projects could build on the experiences of the three case study regions that were supported for this purpose under the OECD Kazakhstan Regional Competitiveness Project. Building FDI-SME linkages should also help Kazakhstan's strategies for SMEs development, internationalisation and linkage with global value chains (see (OECD; World Bank, 2015[65]) and (OECD, 2008[66])), together with local development.

**Box 3.4. Kazakhstan's Regional Competitiveness Project and local strategies for FDI-SME linkage building**

The OECD report on *Local strategies for FDI-SME linkage building in Kazakhstan* examined the potential of inward FDI for supporting local economic development by contributing to the growth of SMEs, focusing on the Atyrau, East Kazakhstan and Kyzylorda regions.

The analysis also looked at international models, such as the oil supply chain in Norway, industrial zones in the Czech Republic and skills development in Singapore. Development of linkages requires actions to create favourable conditions in three areas: (1) the institutional capacity of both public institutions and the SME sector itself, for example in organising supply chains and clusters; (2) the policy support structure for local SMEs, ensuring that they understand the requirements to deal with FDI and have appropriate support in upgrading their products and processes for this purpose; and (3) the existence of appropriate skills in the workforce and within SMEs. In order for there to be an effective linkage programme there further needs to be: clear responsibility, accountability and resources available; adequate information and intelligence on both the local SME sector and existing and potential FDI.

The regions under study lack foreign investment in the sectors with better potential for developing linkages. The local SME sectors are weak in general, so public SME development actions should seek to build SME capabilities both for linkages with FDI and more generally for the support of local economic development, which is shifting to a more strategic and proactive approach with the private sector. Possible pilot actions to encourage such linkages include creating a skilled linkage strategy team, introducing a set of preparatory actions to ensure adequate understanding of FDI and SME sectors, preparing a set of developmental actions to maintain the incentives of the linkage strategy team, and working out a set of pilot actions.

*Sources*: OECD (2014), (OECD, 2013[64]).

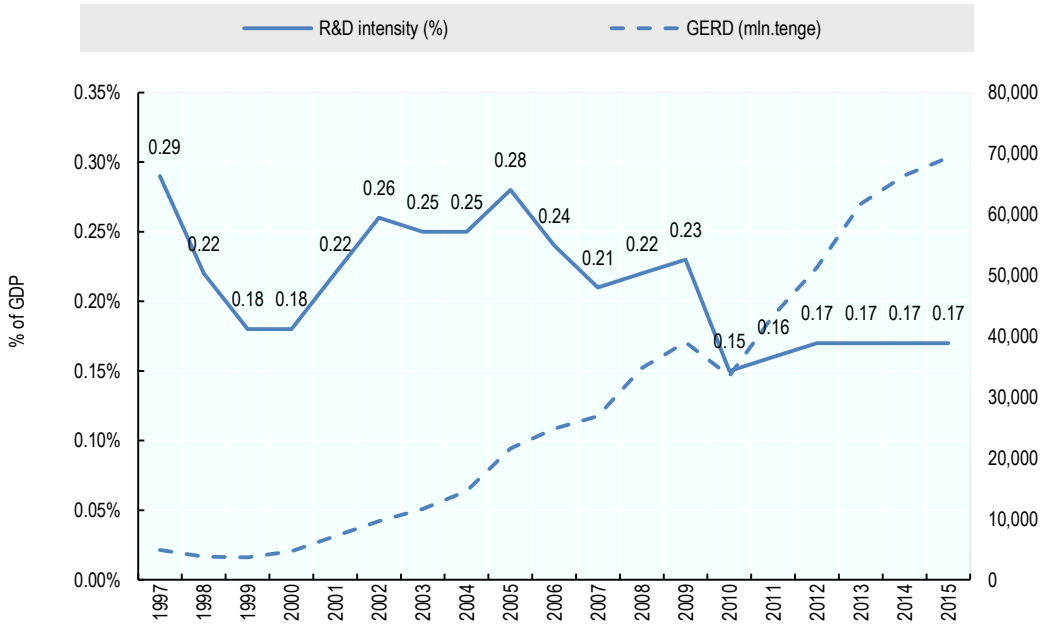
## 3.4. Fostering innovation

***The innovation system suffers from demand- and supply-side weaknesses***

Despite numerous initiatives in recent years, Kazakhstan's innovation ecosystem is in many respects still in its infancy.

Business innovation remains weak and undiversified. The business sector only contributed about 40% of R&D in 2015, which is low by international standards, especially compared to the OECD average of 68%, and is well below the levels of countries like China or Malaysia (OECD, 2017[16]). Moreover, this low share must be seen in the context of overall low spending on R&D: measured relative to GDP, the gap would be even larger. Government funding of R&D activities is also insufficient. R&D intensity (the ratio of gross expenditure on research and development (GERD) to GDP has fallen from a peak of 0.28% in 2005 to around 0.15% to 0.17% since 2010 (see Figure 3.6), and is well below the targets set in various government strategies and programmes (2%).[21] In this respect, Kazakhstan is all too typical of its neighbours in Central Asia, which also suffer from low investment in R&D.

**Figure 3.6. R&D intensity and gross expenditure for R&D in Kazakhstan**




*Source*: (OECD, 2017[16]).

Perhaps the most important impediment to business innovation in Kazakhstan is the weak demand for innovative products. Local firms tend to underinvest in non-technological innovation, making little effort to modify their processes and marketing strategies. The number of research results developed in collaboration with industry is limited, as is the culture and the support infrastructure for collaboration with business. Despite an increasing number of courses in universities dedicated to would-be entrepreneurs, firms have a limited exposure to managerial and entrepreneurial skills. Early-stage finance is very scarce, constrained by a poor

pipeline of innovative ventures, limited venture-capital (VC) skills, unclear exit options on the domestic financial markets, and/or non-existent later-stage funds.

The connection between higher education and research institutions is also limited, a legacy of the Soviet-era separation of education and research. The relationship between science and industry, though strengthening, is still weak. OECD (2017[16]) finds only limited evidence of successful patent licensing and other forms of knowledge transfer, such as the creation of start-ups, partnerships with innovative firms or the mobility of skilled personnel between research institutions and businesses. The 26 research commercialisation offices created by the National Agency for Technological Development (NATD) to support knowledge transfer are still hampered by resource constraints and limited experience in the country (e.g. on new processes, entrepreneurship and innovation management courses for master's and doctoral students, and new channels to transfer knowledge and engage with business firms, such as new departments and internal organisations such as incubators and science parks, etc.). Also, the model of knowledge transfer itself is still linear, exhibiting little consideration for the demand side of innovation, especially the capabilities of firms and the market needs they convey ("technology pull"). It involves at present a series of distinct steps, from basic research and applied technology, to design, development and production, with little consideration of interactions and feedback loops, which are actually essential to success (OECD, 2017[16]).

Relative to population, employment in R&D is low by international standards, although there has been some increase recently.[22] Kazakhstan lags behind the OECD average, the Russian Federation, Malaysia and China in the relative size of its research community, but it is also about half the average size of upper middle-income countries according to the World Bank country typology.[23]

Gaps in education and skills affect innovation capabilities and potential in Kazakhstan. These are addressed in greater detail in Chapter 5, but a few points are relevant here.

- The absence of institutional funding for research activities in universities and their lack of autonomy have held them back from becoming full research institutions. The bulk of university research is financed through competitive schemes, which do not provide the level of financial stability needed for longer-term planning and more strategic research projects.
- Despite reform of both the universities and the public research sector, with a view to strengthening universities' research activities, the overall performance of universities in Kazakhstan is low.[24] The quality of tertiary education requires continuous attention. Since the 2000s, the government has made a concerted effort to increase R&D activities and to improve scientific outputs (such as an increase of the number of publications in particular articles in English, together with the number of patent applications especially from abroad). Yet, there is a low level of scientific production relative to the size of the population, as well as a persistently low level of patents taken out by Kazakh residents, licensing agreements and an undeveloped system of copyrights (OECD, 2017[16]).

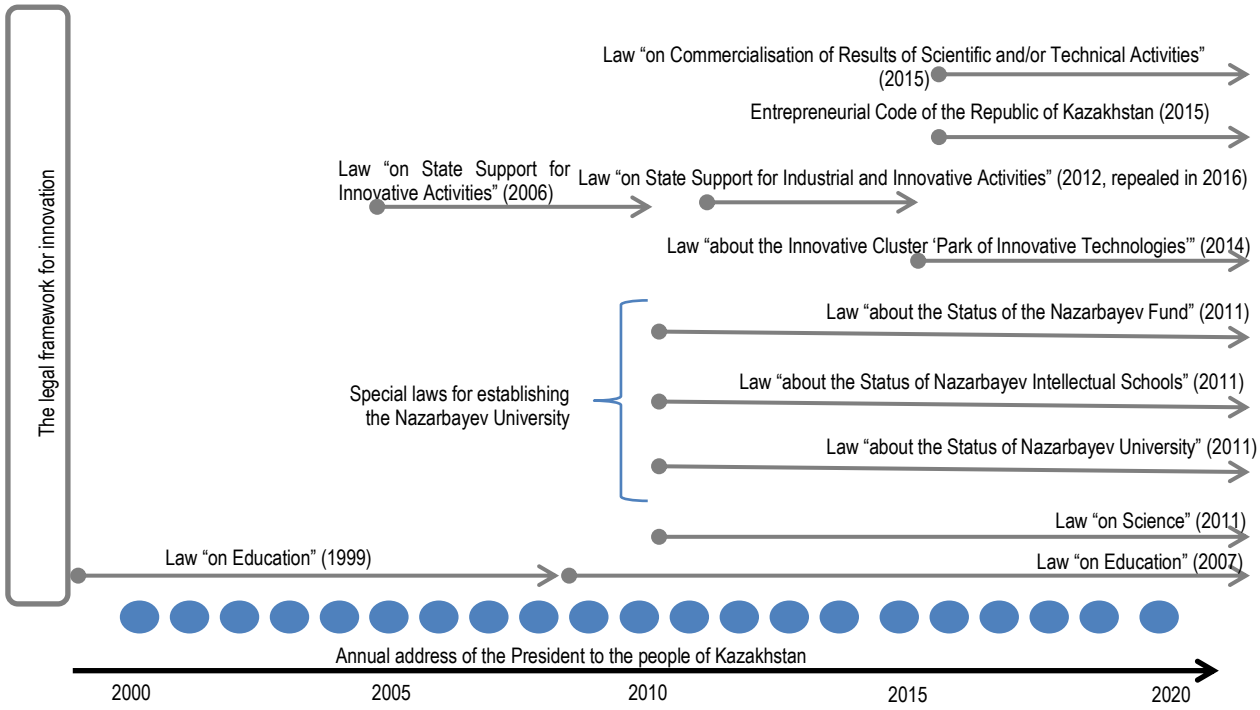
The governance of the innovation ecosystem represents an additional challenge. Numerous organisations have been established to drive the innovation agenda, together with multiple strategies and programmes. In the absence of an effective

inter-ministerial co-ordination body, these are only very loosely interconnected in particular between the Ministry of Education and Science and the Ministry for Investments and Development. The introduction of new policy instruments (e.g. innovation vouchers, and SEZ (Special Economic Zones) has also added complexity to the science, technology and information (STI) policy landscape. Increasing the coordination and co-operation between different policy actors, streamlining the design, decision-making and implementation of innovation-related policies, and regular, multi-stakeholder, rigorous and external monitoring and evaluation mechanisms would be welcome.

***The authorities are working to transform the innovation eco-system…***

Since independence, the country has introduced a number of changes and has shown strong commitment at the highest levels towards long-term development objectives (see Figure 3.7). In recent years, it has adopted a comprehensive legal framework to regulate all aspects of research and innovation, from funding to implementation and commercialisation of results. The government recently provided significant clarifications through the Law "on Commercialisation" (2015) and the Entrepreneurial Code (2015). The government has established a strategic and programmatic framework on R&D through public policies and programmes aiming at precise targets as well as cross-cutting issues.

**Figure 3.7. Timeline of the main laws regulating science, technology and innovation activities in Kazakhstan**




*Source*: (OECD, 2017[16]).

Kazakhstan has substantially overhauled the legal foundations for research activities performed at universities and Public Research Institutes (PRIs). In the last decade, a strong emphasis was put on the quality of delivery of educational and research

programmes through the merger of universities and the reorganisation of their educational and research activities. The government also created Nazarbayev University as a model of research excellence and innovation performance. As for research activities, the universities were reorganised under the Ministry of Education and Science.

The government has made important efforts to enhance commercialisation activities. Several public support initiatives have been launched in recent years, in particular with the 2015 law on Commercialisation of Results of Scientific and Technical Activities passed. The 26 research commercialisation offices were established in universities with the support of the innovation agency, the NATD and the World Bank Technology Commercialisation Project. Launched in 2011, this project has played an important role in providing additional opportunities for research teams to make scientific progress and commercialise their results. Several universities have managed to achieve some success in research. In particular, the Nazarbayev University Research and Innovation System (NURIS) and the Alatau Park for Innovative Technologies (PIT) are promising experimental initiatives. Leading universities have also set up intermediary organisations and new channels to transfer knowledge and engage with firms to support new processes, entrepreneurship and innovation management courses (OECD, 2017[16]).

To address the low level of business innovation in Kazakhstan, the government has introduced regulations and incentives to boost business R&D and expanded instruments to support innovative small and young firms. To complement tax incentives attracting investment, particularly from abroad (see section on removing barriers to investment above), specific measures such as tax credits and tax exemptions were introduced to specifically promote innovative business investments. For instance, the 2012 amendment to the Law "on Subsoil and Subsoil Use" requires subsoil users to invest 1% of their annual income in internal or external R&D. However, this measure, designed to contribute to Kazakhstan's diversification objective, seems to channel only a fraction of this percentage into R&D, and investment by subsoil users has naturally favoured research projects related to extractive sectors. According to the OECD Review of Innovation Policy (2017), the restricted flow of projects originating from research organisations or other companies, together with various legal uncertainties and design flaws, have proven to be important factors limiting the law to reach its objectives. This law exemplifies some of the persistent weaknesses in the country, in which implementation of good practices, more than their identification or design, could be improved.

***…but more can be done to encourage knowledge creation and innovation***

The innovation policy mix (OECD, 2016[67]) takes into account the interdependence of policy measures and the adoption of more holistic perspectives to understand the performance required by the behaviours of innovation systems. Policy-makers increasingly confront the unexpected development of innovations beyond mere technological innovation. The policy mix approach is important to understanding how to work with civil society and integrate social and ethical considerations into the innovation process. It also aims to shift the focus towards internationalisation, less public sector-led science, and more open science in particular with accelerated sharing of scientific data.

To further enhance its research capability, Kazakhstan should focus on the level of financial and human resources in public research institutes (PRI). Kazakhstan should

gradually increase the level of government support for universities and PRIs, both in terms of volume and types of funding. Substantial basic funding should be increased with non-competitive, pluri-annual resources dedicated to university research. Moreover, there is some evidence that competitive grant schemes are suffering from structural problems that affect their performance. Competitive grant schemes tend to finance a large number of very small projects, while more focused financial support to teams of researchers instead of individual researchers would increase the efficiency and potential commercialisation of such projects. Adequate monitoring, as well as ex post evaluation of PRIs' missions, activities, results and governance at institutional and individual levels, will be required for efficient allocation of these resources.

Further steps are needed to broaden support for knowledge transfer and improve commercialisation. Kazakhstan plans to establish more commercialisation offices, technological parks, business incubators and other innovative structures in universities. Ensuring the diversity of knowledge transfer channels is also paramount. Technology Transfer Offices (TTOs) largely rely on patents and licence agreements for commercialisation. Other channels such as public-private collaborative research, student and faculty mobility, contract research or student entrepreneurship should also play a bigger role. Ensuring the sustainability of intermediary organisations dedicated to support business innovation is also essential. An assessment of their financial needs should be conducted and funding should be provided on a longer-term basis, even for non-commercial activities.

Support for business innovation, in addition to tax incentives, could also be improved. R&D tax deductions and exemptions should be generalised in order to benefit more firms. At present, only a few firms appear to benefit from R&D fiscal incentives; in particular R&D tax credits. The tax regime should also be revised to meet international best practices, including a wider definition of R&D and clearer conditions for eligibility of costs. Today, the eligibility rules are restrictive, excluding expenditures related to capital investment and external R&D from firms not conducting research services as their primary activity.

Another step along these lines would be to extend the scope of instruments to finance innovation. These should aim at adequate funding for all investments and allow early-stage venture capital vehicles to focus on early-stage financing for high-tech firms. The Subsoil User R&D requirement should be properly enforced. The expected funds should be channelled towards R&D, generating high returns to society, including outside the extractive sector. In addition, the restrictive application provisions (notably with regards to external R&D) and ambiguity of the rules (eligible expenditures, etc.), which reduce the effectiveness of the requirement should be revisited.

The scope of the governmental financial support could also be addressed. The monitoring and evaluation of the effects of the grants scheme should be improved, while the combination of technical and financial support should be scaled up in all regions. Some recent initiatives are a good basis. The DAMU network is now combining business training and other services to SMEs with NATD grants for innovation. This is a good example of innovation policy which increases the deal flow by linking financial and technical support.

Finally, improving the governance and framework conditions of science, technology and innovation in Kazakhstan will require more systematic and smoother

communication, information exchanges and co-operation mechanisms between the main actors of the innovations system (i.e. the Ministry of Education and Science, the Ministry for Investments and Development, the Ministry of National Economy and other ministries). The newly created Council for Technological Development should take the role of co-ordinating the policy actors involved in research and innovation activities. It should ensure the consistency of plans and adequate division of labour and co-operation, and it should also be equipped with the resources and the authority necessary. Subsequently, its decisions and operations should be monitored.

## 3.5. Conclusion

In recent years, Kazakhstan has pursued many reforms to create an attractive investment environment and to integrate further into the global trade network. Important commitments within the next five years, involving the accession to the WTO, are intended to create a level playing field. An ambitious privatisation plan has been announced, stimulating the role of SMEs and increasing R&D capabilities.

These efforts have entailed the passage of new laws or others yet to come, and it is too early to assess their impact on Kazakhstan's competitiveness framework. They will have to be sustained and further developed, with more frequent use of *ex-ante* and *ex-post* assessment tools, continuous feedback from stakeholders and increased multilevel co-ordination and communication. Further reforms will be necessary in the areas of foreign investment, SOEs and quasi-state entities, SMEs and the framework conditions and the governance of STI.

**Box 3.5. OECD Recommendations for building a more competitive and open economy**

*International investment*

- Scale up investment-related policies to demonstrate further progress on tackling bribery, corruption and favouritism.
- Improve regime for FDI by reducing the exceptions to National Treatment.
- Improve the ease of hiring key foreign personnel, as well as regulations in the mining sector and the local content policy.
- Strengthen the capacity of the newly established NCP with regards to responsible business conduct.

*SOE, privatisation and competition*

- Implement the Comprehensive Privatisation Plan for 2016-2020, drawing on the best international standards (e.g. establish a single co-ordinating actor, employment and assistance of external independent advisers and consultants, separation of mandates for evaluation and advice from the one to actually conduct the sale).
- Align the organisation, administration, governance and enforcement of rules and regulations of state ownership in Kazakhstan, with internationally agreed good practices, chief amongst them, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which are already reflected in key policy documents in Kazakhstan.
- Further base Kazakhstan's legislation on sound principles, in particular by establishing an independent competition authority, an independent regulator for the telecommunication sector and other areas highlighted in the 2016 OECD Competition Law and Policy Review and the 2017 Investment Policy Review.

*SMEs and entrepreneurship*

- Build further capacity and professional development in the policy delivery structures for SME support (DAMU, the National Chamber of Entrepreneurs and the NATD).
- Scale up the support to SMEs in areas identified as presenting the main gaps: entrepreneurship education, business development services for SMEs (in particular introducing a business diagnostic tool) and more balanced access to finance (in particular non-bank financial instruments such as leasing, factoring or private equity).
- Better align regional, investment and education policies and SME policies.

*Science, technology and innovation*

- Continue to improve framework conditions and the governance of science, technology and innovation in Kazakhstan adopting a "whole-of-country" approach.
- Progressively increase public funding for research at universities and public research institutes (PRIs).
- Evaluate the PRIs' missions, activities, results and governance to stimulate a health mix of competitive private and institutional funding for those that perform the best, and consider dynamic reallocation of funds, as required, for the others.
- Intensify and broaden the support for knowledge transfer between researchers and businesses.
- Ensure that the innovation scheme for subsoil users' R&D requirement is functioning properly, with the necessary by-laws, monitoring and enforcement mechanisms and a review of eligibility conditions to generate high returns to society, including outside the extractive sector.
- Invest and deliver on education and skills to enhance research capabilities in line with the national development needs.

# *Notes*

[1] The "100 Concrete Steps" constitute a roadmap of structural reforms with a view to realising Kazakhstan's 2050 Strategy. For more information, see http://mid.gov.kz/en/kategorii/100-konkretnyh-del-ministerstva.

[2] In August 2014, as part of the latest government reorganisation, the Ministry of National Economy amalgamated the functions related to regulatory management and e-government, formerly performed by the Ministry of Regional Development and former Ministry of Transport and Communications. This development aligns with the OECD recommendations.

[3] According to the new Civil Procedure Code of Kazakhstan, which came into force 1 January 2016, civil cases on investment disputes, according to the rules of the court of first instance, can be heard in the court of Astana or the Supreme Court depending on the status of the investor. For this purpose, the Supreme Court has set up a Specialized Judicial Board composed of seven judges to deal with disputes involving large investors. Civil cases regarding the contestation of decisions and actions (or inaction) of the Central Election Commission, as well as reviews or appeals of judicial acts on investment disputes are considered in the court of Astana.

[4] The FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment across 22 economic sectors. It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: i) Foreign equity limitations; ii) Discriminatory screening or approval mechanisms; iii) Restrictions on the employment of foreigners as key personnel, and iv) Other operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The overall restrictiveness index is the average of sectorial scores. See more information here: http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX.

[5] A FDI Regulatory Restrictiveness Index level above the OECD average means it is more restrictive than the average OECD country.

[6] OECD FDI Regulatory Restrictiveness, see: http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#.

[7] World Bank (2017), World Bank Enterprise surveys, see: http://www.enterprisesurveys.org/data/exploreeconomies/2013/kazakhstan.

[8] This figure includes all types of legal entities available to the state for different purposes: state institutions and state enterprises, which are financed by the budget, as well as JSCs and LLPs, which are established and operate under the same laws as privately held enterprises. (OECD, 2017[47]).

[9] In general, the Product Market Regulation (PMR) indicators measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. The State Control index, more precisely, analyses the extent of a country's control over its economy, by measuring the level of public ownership (scope and governance of the SOEs, the direct control of the government over enterprises and the government's involvement in network sectors), and the involvement in business operations (price controls and control regulation). For further information, see: http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm.

[10] The term is used here to refer to the electricity, gas, rail and other energy and infrastructure monopolies. This usage is commonplace when discussing Eurasia countries and differs from the traditional English sense that might be found in Western economics text (minimum efficient scale of production equal to or greater than the size of the market).

[11] See "Entrepreneurial Code of Kazakhstan" - https://online.zakon.kz/Document/?doc_id=38259854#pos=172;-196. Consulted in September 2017.

[12] Declaration by Mr. Serik Zhumangarin, the chair of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy, see https://primeminister.kz/en/news/ekonomika/v-kazahstane-s-2017-goda-otmenyat-tsenovoe-regulirovanie-13099. and http://bnews.kz/en/news/ekonomika_i_biznes/kazakhstan_to_abolish_price_regulation_since_january_1_2017-2015_12_04-1207453.

[13] This amount is as of April 2017.

[14] According to the "Yellow Pages Rule", legal persons with state participation (50% or more) are not eligible to establish daughter companies engaged in activities already performed by private entrepreneurs on the market. The Entrepreneurial Code also prohibits the establishment of and participation in juridical persons with more than 50% of shares (rights of participation) owned by the state and their affiliated persons that relate to the category of small businesses - see paragraph 4 of Article 192 of the Entrepreneurial Code, http://adilet.zan.kz/rus/docs/K1500000375.

[15] Informal workers – as defined by employment which falls mainly outside the scope of taxation, social insurance and other regulations (OECD, 2004[164]) – accounts for around 20% of total employment in the country.

[16] OECD 8 countries cover: Estonia, Greece, Hungary, Latvia, Poland, Slovakia, Slovenia and Turkey, which are the eight EBRD countries of operation that are members of the OECD. Given Kazakhstan's ambition to achieve OECD standards and in the light of the signing of the Country Programme with the OECD in 2015, the eight countries from the EBRD region that are members of OECD provide a particularly relevant benchmark sample, when considering the current level of Kazakhstan's progress towards establishing a sustainable market economy.

[17] "Kazakhstan 2050 Strategy: a new political course for Kazakhstan in a fast-changing world", Address by the President of the Republic of Kazakhstan, 2012. see: https://primeminister.kz/enpage/article-101.

[18] Corruption, for example, is cited as an important obstacle by only 3.2% of respondents in the east, against 35% in the south. Likewise, an inadequately educated workforce only represents an obstacle for only 2% of respondents in the south, compared to the national average of 13% and a high of over 17% in the north (OECD, 2018[56]).

[19] The oblast administration (akimat) is headed by a governor (akim) directly appointed by the President. Alongside the administrative branch, there is an elected assembly (maslikhats).

[20] See also the report on "Entrepreneurial education in practice", (Martin Lackéus, 2015[162]), which discusses many of the opportunities with entrepreneurship in education, such as its capacity to trigger deep learning and instil engagement, joy, motivation, confidence and feelings of relevancy among students, but also its stated and to some extent evidenced effects on job creation, economic success, renewal and innovation for individuals, organizations and society at large.

[21] According to the Global Innovation Index 2016, Kazakhstan occupies 92nd place (out of 128) in terms of R&D intensity (Cornell University, INSEAD and WIPO, 2016[159]).

[22] The total number of staff (full-time equivalent) employed in R&D per million inhabitants in Kazakhstan reached 1 503 in 2014 (OECD, 2017[16]).

[23] For the 2017 fiscal year, upper-middle-income countries are defined as those with a gross national income (GNI) per capita, calculated using the World Bank Atlas method, of more than USD 4 036 but less than USD 12 475 (see https://data.worldbank.org/income-level/upper-middle-income).

[24] This can be partially explained by the rather low number of persons employed in R&D in HEIs and PRIs and the substantial decrease of the number of students since the mid-2000s, and by wider structural problems limiting the attractiveness and quality of PhDs (low wages, restrictive conditions, balance between students' research work and other university occupations). See also the results of the 2012 OECD PISA survey (see: http://www.oecd.org/pisa/aboutpisa/kazakhstan-pisa.htm), which show that despite improvement of school performance, Kazakhstan still lags behind the OECD average.

# CHAPTER 4

# Fostering Green Growth

*The importance of extractive industries for Kazakhstan's growth, combined with outdated technologies and performance standards, a lack of resource diversification and a limited environment for market-driven investment, are holding back its transition to a green economy. This chapter examines green growth issues in Kazakhstan and considers what needs to be done to put the country onto a sustainable development path. It underlines the need for more efficient use of resources, better implementation of environmental sustainability measures and less reliance on the exploitation of natural resources.*

# 4. FOSTERING GREEN GROWTH

Since 2000, Kazakhstan's growth has been driven mainly by its extractive industries – primarily hydrocarbons, but also metals. This leaves the country highly vulnerable to external shocks (see Chapter 1). Resource dependency is also associated with poor environmental performance, which is also in part a consequence of outdated infrastructure, technologies, standards, and practices inherited from the Soviet past. Kazakhstan today is one of the most energy-intensive economies in the world.

At the same time, Kazakhstan has committed to national and international action to achieve ambitious environmental targets on a path to long-term, sustainable growth. It has taken steps to improve the regulatory framework to address the use of renewable resources, to increase energy efficiency, and to curb greenhouse gas (GHG) emissions. It is currently reviewing its Quota Trading System, with the development of a new national plan for the allocation of greenhouse gas emission quotas for 2018-2020. Despite this initial progress, much has yet to be done to ensure implementation of green reforms can be implemented and to generate investment in activities and measures to achieve green growth.

This chapter begins with an overview of Kazakhstan's goals and targets for transitioning to a green economy and of the obstacles to more sustainable development. The following sections review ways of generating investment in greener growth, supporting green R&D and international co-operation, and addressing the needs of public utilities and infrastructure. The final section looks at developing and monitoring good data and information, and promoting policies targeted at long-term and sustainable green growth.

## 4.1. Addressing diverse challenges to become a green economy

Kazakhstan faces important development challenges that raise new issues for long-term growth, environmental sustainability and the efficient use of resources. Other challenges that must be addressed if the country is to realise its green economy ambitions are linked to the need to lower the country's high GHG emissions. Further, the country faces water management issues that range from desertification, water pollution and the extreme case of the Aral Sea disaster. In addition to these are added the management of industrial waste, from both current and past activities, especially from the mining sector and heavy industry (UNECE, 2008).

### *Addressing high emissions requires a stronger regulatory framework*

The predominance of extractive industries in Kazakhstan and its high levels of energy intensity have had a severe impact on its land, water and air quality. Kazakhstan's emissions of greenhouse gases are the highest in Central Asia (Asian Development Bank, 2012[18]), both in *per capita* terms and relative to production. $CO_2$ emissions per unit of GDP are almost four times the level in Norway and 15% above China's (OECD, 2016[68]). Air pollution is particularly severe in larger urban areas, such as Almaty and Astana. As a result of industrial activity and the growing use of private motor vehicles in both areas, air quality is becoming a serious health issue (Asian Development Bank, 2012[18]).

To support its GHG reduction commitments, Kazakhstan has created a pilot emissions trading system (KazETS), along with several regulatory instruments under which emissions from highest-emitting sectors are capped and tradable. Nearly half of the country's GHG emissions are produced by the oil, gas, power, mining and chemical sectors, and are included in the KazETS. Only $CO_2$ emissions are capped at present, but the question of whether methane and other GHGs are to be included in the scheme is under discussion. GHG mitigation under the KazETS could be increased with further legislative reforms and by working with relevant stakeholders to clarify regulations. Advances could also be achieved by strengthening the authority in charge of the KazETS to provide better training and guidance for the entities under KazETS regulation (OECD, 2017[47]).

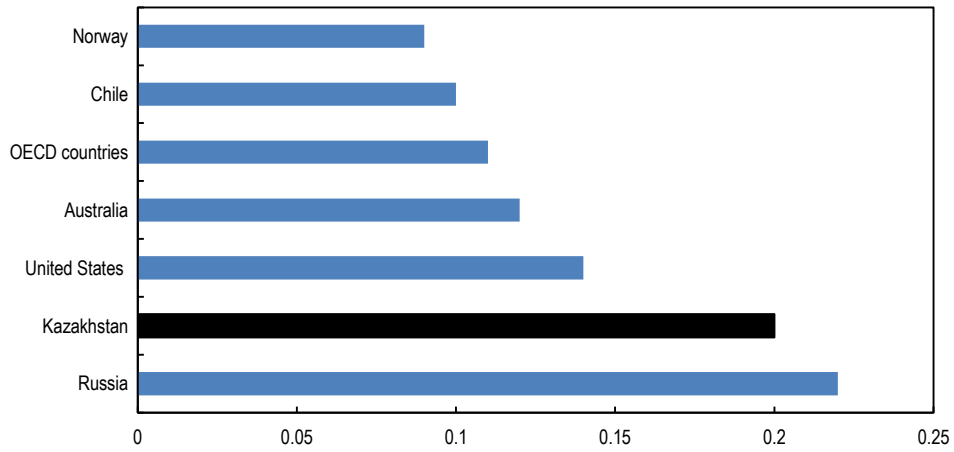
Further reviews of the effectiveness of the regulatory framework for emissions are also essential. The current regulatory framework focuses on liability for emissions violations, and on calculating and collecting monetary compensation for the state (essentially a revenue-raising penalty), rather than on preventing and correcting the environmental damage. Environmental ambient quality standards (EQS), expressed as maximum allowable concentrations (MACs), are the basic instrument for pollution control, but these standards were formulated in the 1980s on an academic and theoretical basis. They have not been translated into the legislative and regulatory framework with their practical application and industry compliance in mind. The standards in OECD countries are also derived from sound scientific data, but they allow for assessment of acceptable risk levels under precautionary conditions. Some initial steps towards reforms have been taken, but new standards have not been introduced and the old standards are the point of reference for regulatory use (OECD, 2017[3]).

***Kazakhstan must improve energy efficiency and diversify its energy mix***

The energy intensity of GDP in Kazakhstan is almost twice the OECD average (Figure 4.1). This in part reflects its economic structure: the predominance of resource extraction implies higher energy intensities than one would find in, for example, a service-based economy.[1] It also reflects the country's geography. The energy intensity of GDP tends to be higher, other things being equal, in extreme climates, and Kazakhstan's extreme continental climate involves long, severe winters and often scorching summers.

**Figure 4.1. Energy intensity in 2014**

(TPES / GDP PPP (toe/thousand 2010 USD))

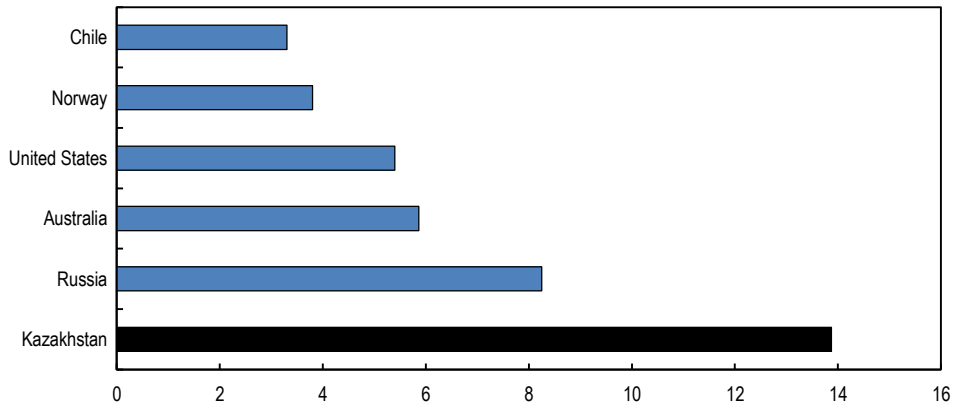



*Source*: (IEA, 2014[7]).

However, Kazakhstan's high energy intensity also reflects inefficient practices and the use of outdated technologies and ageing infrastructure. A disaggregation of energy intensity by sector reveals that the industrial sector has considerably higher energy intensity than those of other countries that rely heavily on hydrocarbon and mineral extraction (Figure 4.2). With Kazakhstan expected to increase its oil production from new projects in the Caspian Shelf and to join the top ten oil producing countries by 2030, its energy consumption is forecast to double by 2035 (Karimova, 2015[69]).

**Figure 4.2. Energy intensity of the industrial sector in 2012**

(MJ/2011 USD PPP)

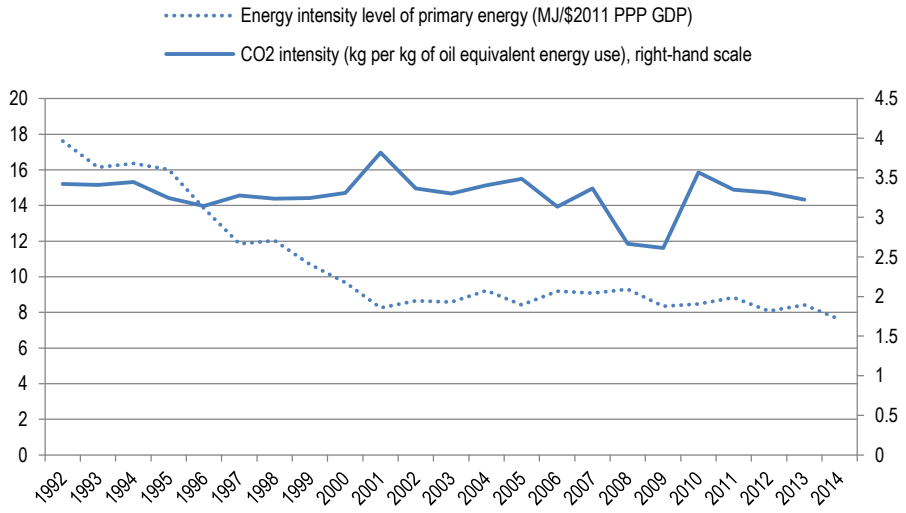



*Source*: (World Bank, 2017[5]).

Although the energy intensity of Kazakhstan's GDP fell sharply in the first decade of independence, progress in improving energy efficiency since the turn of the century has been relatively slow and uneven (Figure 4.3). Some progress in introducing

energy-saving measures has been made in recent years, but energy efficiency levels remain low. For example, apartment buildings constructed during the Soviet era have outdated heat distribution systems, resulting in up to 30% annual heat loss (UNDP, 2017[70]), and these buildings consume 1.5 to 2 times more heat per square metre than in European countries with comparable climates (G-Global, 2013[71]). Transmission networks across the country are inefficient, and losses during transmission and distribution were estimated at approximately 15% of energy produced in 2013, although the actual value may be higher (Kadrzhanova, 2013[72]). Much scope remains for increasing the energy efficiency of both industrial activities and electricity consumption. The government estimates that modernising production technologies could deliver energy savings of 15%-40% for industrial activities, particularly as the private sector continues to expand.

**Figure 4.3. Energy and $CO_2$ intensities of the Kazakh economy, 1992-2014**




*Source*: (World Bank, 2017[5]).

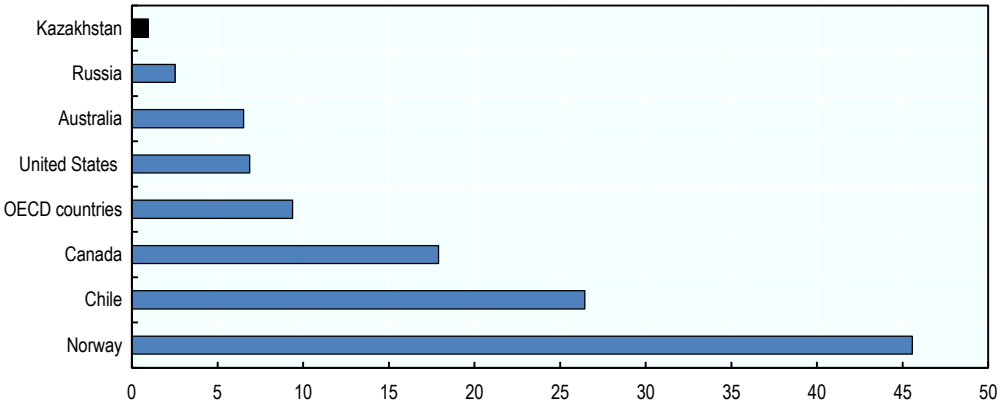
Modernising outdated equipment and installing metering could greatly increase electricity savings, as could imposing minimum energy efficiency standards and strengthening energy performance requirements. One national programme, "Energy Saving – 2020", estimates that 60% of electricity consumption could be saved by modernising lighting in the country in both the residential and industrial sectors (Energy Charter, 2014). Overall, the government forecasts that the annual potential for energy savings could be USD 3 bln to USD 4 bln, possibly reaching USD 6 billion to USD 10 billion per year by 2030.

Low energy prices, particularly for electricity and heating, have reduced the incentives to conserve energy and to introduce energy-saving technologies. While direct support for electricity and heat consumers has mostly been eliminated, the government provides indirect support by maintaining electricity and heat tariffs at rates that are lower than the real cost of supplying services. Heat tariffs are based not on consumption but on square metres of living space, benefiting those with larger homes (with potentially socially regressive effects). Tariff reform will be important in supporting operation costs and eventually encouraging investment.

Losses in energy efficiency are not helped by what remains a limited contribution of renewable sources to Kazakhstan's energy mix. Renewable energy comprises approximately 1% of the energy mix and 9% of electricity output, although the country's renewable potential is much higher (IEA, 2015[17]).

**Figure 4.4. Renewable energy in 2014**

(% of primary energy supply)




*Source*: (OECD, 2017[73]).

Growth from green and sustainable sources has historically been overshadowed by fossil fuels. Most of Kazakhstan's low-carbon energy comes from hydropower plants built in the Soviet era. New projects in non-resource sectors such as renewables and other forms of clean energy have been limited. The "Action Plan for Development of Alternative and Renewable Energy for 2013-20" aimed to install 3 054 megawatts of renewable energy capacity, mostly from wind and hydropower sources by 2020. The Accounts Committee's 2016 assessment of its implementation revealed that it had fallen far short of its targets and that lack of co-ordination has led to financing constraints at the national and local levels. The Action Plan's mandate expired in April 2017. The government should continue working on new plans for renewable projects, which will utilise Kazakhstan's great potential for wind and photovoltaic power.

## 4.2. Increasing investments for green growth

### *Investments for green development are driven by multilateral and government support*

Green financing relies mainly on multilateral channels or government support. The government received commitments of about USD 346.7 million in development finance during 2013-14, mostly for climate mitigation projects (OECD, 2016[68]). Most was dedicated to renewable energy and energy efficiency projects. Ninety percent of total financing came from multilateral institutions, including the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the European Union. Kazakhstan has also advanced its financing capacity and co-invested in several green energy projects through national public financing mechanisms, including the Samruk-Kazyna Sovereign Wealth Fund (EBRD, 2017[74]).

Despite Kazakhstan's wind and solar potential, private sector involvement has been limited, and renewable projects have faced high barriers to investment. In 2016 Kazakhstan ranked 75th out of 190 countries on the "Getting Electricity" indicator of the World Bank's *Doing Business* survey (World Bank, 2017[75]). The ranking takes into account the ease of doing business, considering the number of procedures, time, cost, and transparency of tariffs and reliability of electricity supply. Although Kazakhstan was the first country in Central Asia to introduce a green tariff, getting the price right has been a challenging process. When Kazakhstan's national currency was floated in August 2015, the value of the green tariff dropped by a third against the dollar. The tenge's fall radically reduced the returns foreign entities could expect on their investments, and highlighted the need to readjust the formulae for indexation, which had been based solely on the inflation rate. In April 2017, the government revised the rules for determining fixed tariffs to provide for indexation of fixed tariffs while taking into account the indexation and changes in the exchange rate of the national currency. It is working towards establishing an auction mechanism for renewable energy projects. A new formula, to be readjusted in October every year and partially accounting for exchange rate fluctuations, was introduced recently, but so far, little private sector project development has been generated.

Lack of investor confidence in power purchase agreements (PPAs) has also been aggravated by delays in payment or even, at times, a failure to pay. Although the proposed tariffs are ostensibly attractive to investors (if they account for inflation and exchange rate fluctuations), the true project costs are as yet unknown, particularly as most equipment and personnel for operating plants must be imported. The uncertainty over whether projects are bankable has restricted access to credit, although bank loans are the main source of funding for private investors.

***Conditions for greener investments need to be improved***

Potential investors in Kazakhstan face additional costs in developing new projects. It can be difficult and time-consuming to obtain the approvals required for green and environmentally sound projects. The Environmental Impact Assessments (EIA) required for any project and facility investment can help to ensure that environmental implications are taken into consideration and public consultations are held before investment decisions are made. However, procedures in Kazakhstan tend to be repetitive and to require extensive documentation. This adds to the administrative burden, and often results in less than satisfactory and often irrelevant assessments, and ultimately, ineffective outcomes. Lack of transparency in the procedures and requirements has held back environmentally effective projects. Complex procedures and differences across regions in Kazakhstan have also proven problematic (OECD, 2017[47]).

In 2015, regulatory changes were introduced to ease the procedures for establishing new electricity connections and supporting the development of renewables projects. New legislative amendments have reduced construction permit requirements and timelines for approvals. The Settlement and Finance Centre for the Support of Renewable Energy Resources has set up a reserve fund to cover cash shortfalls and arrears to renewable energy producers. The inconsistent enforcement of legislation and lack of transparency, however, have raised questions for large-scale investment, particularly by foreign firms. Investors are concerned about corruption, bureaucracy and arbitrary law enforcement, especially at the regional and municipal levels, which

are often inconsistent across the country (see Chapter 3). External actors continue to complain of preferential treatment for domestic companies, a further deterrent to foreign investors (US Department of State, 2016[76]).

While much of the finance needed to support the greening of the economy is expected to come from the private sector, the government can play an important part in nurturing sustainable growth. This is particularly true of the early stages of developing the renewables sector and promoting energy efficiency. A strong regulatory and legal framework, with reduced administrative requirements, will ultimately benefit the investment environment. Stricter enforcement will also help reduce opportunities for corruption, arbitrary fines and unannounced audits, which foreign companies have often faced in recent years (see Chapter 3 for additional measures to improve investment procedures).

## 4.3. Modernising infrastructure and public utilities for a green economy

### *Ageing infrastructure holds challenges for green growth*

Kazakhstan's existing infrastructure, largely inherited from the Soviet Union and in many cases approaching (or beyond) the limits of its useful life, cannot support the projected future scale of growth. Outdated and inefficient infrastructure requires modernisation and replacement across sectors, including district heating, solid waste management, water supply and sanitation, and urban public transport.

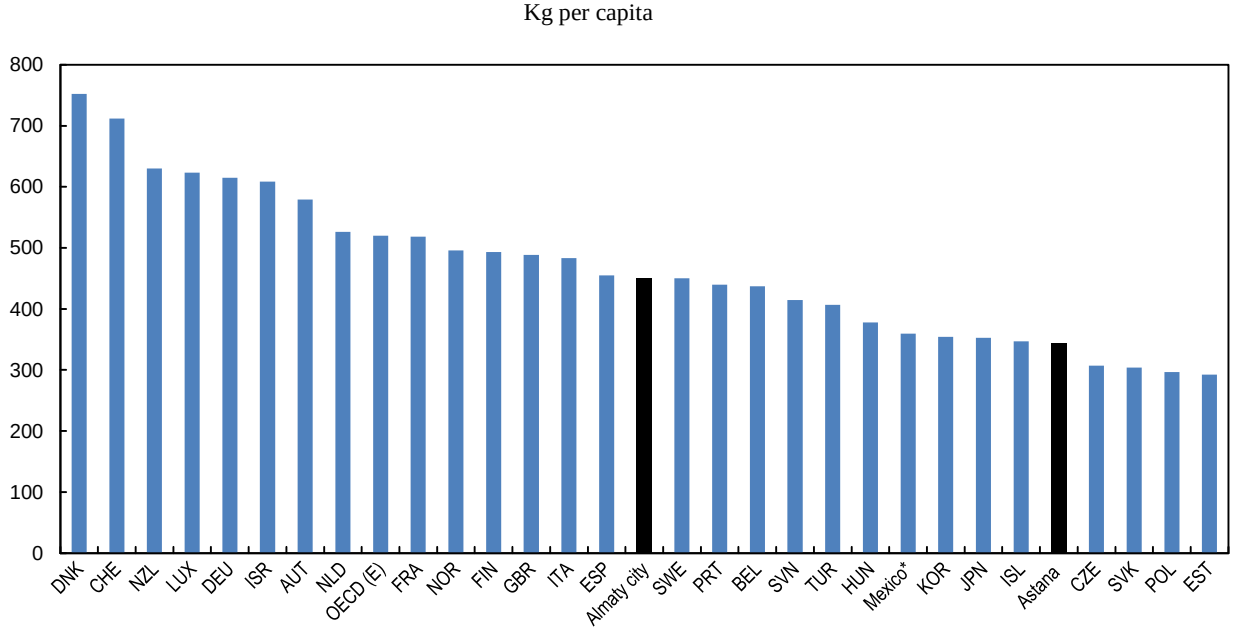
*District heating*

District heating networks in Kazakhstan are old; almost two-thirds require replacement and repair. In some cities, heat losses can reach up to 50% of the initial energy generated (OECD, 2017[3]). Efficiency losses are difficult to measure, since metering technology is used by less than half of the country's consumers. About 40% of heating overall is generated by large centralised heating systems running on combined heat and power plants (CHP), mostly coal-based. A majority were built between 1960 and 1980 (Asian Development Bank, 2012[18]), and the outdated equipment results in poor performance. Low-efficiency heat-only boilers make up the rest.

*Solid waste management systems*

Older technologies also predominate in Kazakhstan's solid waste management (SWM). In major cities, such as Astana and Almaty, waste generation has risen sharply, and municipal solid waste production is projected to grow by at least 50% by 2040, given rising incomes and increasing consumption. Of the estimated daily waste of about 0.4-0.9 kilogrammes per capita, only about 40%-60% is collected by waste management services; this is disposed of at untreated landfill sites. Illegal dumping remains a problem (Asian Development Bank, 2012[18]). Given the plans for urbanisation, SWM systems cannot process the increasing volume of waste (OECD, 2017[3]), and are not developing rapidly enough to accommodate the urbanisation and economic growth projected by the government.

**Figure 4.5. Municipal waste generated in OECD countries, Astana and Almaty City, 2013**

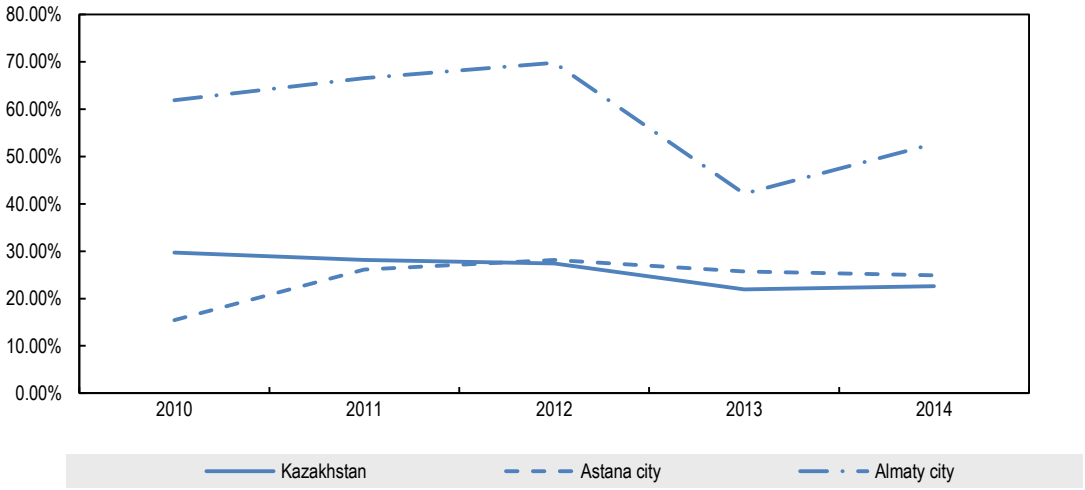



*Source*: (OECD, 2017[3]).

*Water supply*

Water supply system losses are reckoned to range from 25% to 60% – in some cases possibly even higher – although lack of metering prevents precise measurement of actual inefficiencies and losses. Approximately 86% of the population has access to drinking water, although water supply in some places remains irregular or on a scheduled basis (Asian Development Bank, 2012[18]). Some water supply networks have very high losses, particularly in the city of Almaty, where losses averaged more than 50% in 2014-15 (OECD, 2017[3]). The government's "Ak Bulak" programme, which focuses on improving access to drinking water, estimates that as of 2011, approximately 64% of networks required complete repair or replacement (OECD, 2017[3]). The government has also acknowledged that Kazakhstan's need to import water from China and Uzbekistan has increased over recent years.

**Figure 4.6. Percentage loss of total water supply**




*Source*: (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

*Transport*

The reliance on private cars (about 70% of journeys) over public transport (between 25% and 30%) is particularly problematic in Kazakhstan's urban agglomerations. Heavy reliance on private motor transport has resulted in poor traffic management and congestion and high air pollution. In Almaty, 80% of air pollution derives from motor transport (OECD, 2017[3]). In addition, tram and trolleybus lines have declined as a result of the poor quality of service and high operation and maintenance costs. The main modes of public transport are bus and light railway transit (LRT) networks, which need modernisation. Further efforts to improve the transport sector should include efforts to develop sustainable transport options and promote private sector participation (Asian Development Bank, 2012[18]).

***Kazakhstan must continue to improve infrastructure and public utilities***

Improving the existing infrastructure and public utilities can increase efficiency and better use of resources and reduce pollution. Modernisation will mean financing infrastructure renewal and rehabilitation, effective management of public utilities and carefully prioritising planning needs by sector and by region (OECD, 2017[3]). Kazakhstan has, in co-operation with the OECD, undertaken a number of projects aimed at mitigating environmental damage and creating an infrastructure that is more amenable to the green growth the government seeks. Given the importance of water management in moving towards a green economy and the potential for emissions mitigation through urban public transport, Kazakhstan has focused on pilot projects in these sectors within the framework of the OECD Kazakhstan Country Programme (KCP). Whilst these have been localised projects, their success indicates ways in which lessons can be learned and applied in a broader, national context.

*OECD-Kazakhstan pilot project on water management*

One of the most significant areas of co-operation between the OECD and Kazakhstan is the *Support for the Implementation of the Water Resources Management Programme* in Kazakhstan. The initial thrust of the project was to strengthen the role

of multi-purpose water infrastructure (MPWI) in ensuring water-food-energy and ecosystems security, as well as to begin a shift to the inclusive green economy and sustainable development. The project also aimed to review mechanisms and instruments of state support for agriculture, rural development and a water-intensive processing industry affecting the water sector.

The primary function of the project was to help stakeholders identify ways to increase the economic and financial returns of a given MPWI, and thereby to reduce the demand for extending water infrastructure. The intent was to use the lessons learned in these efforts and replicate them on the national level in other regions.

The Shardara MPWI in the Aral-Lower Syr Darya basin was selected as the pilot study for this OECD project, given its economic importance and multifaceted infrastructure. Assessment for the project concluded that drainage is by far the most profitable investment opportunity. The report offered two main recommendations for investment strategy based on the Shardara MPWI:

- Kazakhstan should focus MPWI investments on increasing agricultural productivity in the short term, and gradually shift the focus to investments in water efficiency in the long term. Increasing farming yields will promote resilience to the effects of climate change in the long term.
- Kazakhstan should focus MPWI investments on agricultural productivity by prioritising drainage in the short to medium term, then support work on the canal system and on introducing drip irrigation.

Additional recommendations from the pilot study address the general improvement of water management in Kazakhstan:

- Kazakhstan should simultaneously improve water productivity and agricultural productivity. Refurbishing the canal system can go hand in hand with increasing farmers' earnings.
- In the near term, Kazakhstan should promote investment in drainage, transport and infrastructure. Efforts should be made to restore the drainage system, to map and invest in the existing collector systems, and to improve pipes, escalators, roads, and local food processing and storage facilities.
- Kazakhstan needs to collect more and better statistics on agricultural productivity and water efficiency, to enhance monitoring and planning.
- The Ministry of National Economy should be aware of the different types of investments needed and the different financing mechanisms available for the various types of investments. Careful attention should also be paid to close interlinkages and interdependence of investments.
- Recommendations were made for further application of the "What if?" model as a pre-feasibility tool for other potential projects.

Additional support was provided in the analysis of case studies, to help understand and provide examples of water management, and illustrate the positive and negative impacts of other MPWIs in their respective regions. The Shardara study helped to identify the issues to address for improving economic and financial returns, and as a reference for other MPWIs in Kazakhstan in the future.

The government has already taken action in connection with the project. For example, the Ministry of Agriculture has examined 65 subsidies, eventually removing 11 ineffective subsidies and modifying 40 subsidy criteria in 2017. The ministry claims that this approach helps economise KZT 25 bln per year and that it increases agricultural production by 29% on average within the same budget. It has also stated that its cancelled subsidy on rice and cotton will reduce the use of water resources for these crops. Currently, a working group is developing a plan for shifting from a system of subsidies to concessional lending. The action plan for implementing the State Programme for the Development of the Agroindustrial Complex provides for an overhaul of the collector network in irrigated lands, the modernisation of irrigation and drainage systems, and the modernisation of emergency water management systems under national ownership (reservoirs, main canals). Finally, it seeks to stimulate investments into transportation systems and market infrastructure for agricultural products, and in local facilities for their processing and storage.

*Scope for greening public transport in Kazakhstan*

Kazakhstan has also worked with the OECD on a project for *Promoting Clean Urban Public Transport in Kazakhstan: Designing a Green Investment Programme*. Its focus has been on reducing air pollution in urban transport. The goal was to increase the capacity of government authorities responsible for environmental and public finance management, and to design a green public investment programme in line with good international practices. The project was divided into two stages: the pilot phase, covering the cities of Kostanay and Shymkent, and Phase 2, extending the programme to other major urban centres.

The public urban transport sector presents an opportunity for Kazakhstan to address key objectives in its environmental and climate-related policies, by helping to reduce urban air pollution ($SO_2$, NOx, PM, CO) and GHG ($CO_2$). Objectives of the programme for urban public transport included: *i)* reduction of emissions from hazardous air pollutants, *ii)* GHG emissions reduction, *iii)* modernisation of the urban transport fleet to increase the reliability of public transport, and *iv)* encouraging the domestic production and/or assembly of modern buses using domestic natural gas.

Technical recommendations from the programme's design stage point to a need to:

- Strengthen (diesel) fuel standards, engine emission norms and technical inspection standards and bring them closer to European levels. Since Kazakhstan is rich in natural gas, it could promote local production of clean engines to promote the use of clean fuels. Technical inspection standards need to be better enforced. In a positive development, Kazakhstan plans to upgrade its diesel fuel emission standards from K2 to K4 and K5 starting in 2018.
- Introduce adequate pricing signals. Although compressed natural gas (CNG) and liquefied petroleum gas (LPG) are cheaper than diesel, CNG and LPG-fuelled buses are more expensive (or require the installation of additional equipment). Bus operators are not incentivised to adopt clean fuels. The government may consider introducing targeted tax exemptions for CNG/LPG vehicles and for owners of refuelling stations.
- Improve the ticketing system for public urban transport to conform with good international practices. The system needs to be designed to maximise the social

welfare of both passengers and public transport providers, subject to budget and capacity constraints. Kazakhstan is already taking steps in this direction, for example, by implementing a pilot project on an electronic fare payment system in Astana since 2015, which could potentially be extended to other cities if successful.

- Improve public tenders for providing public transport in urban centres. Shifting from the current short-term contracts towards an approach with medium- to long-term contracts would make it possible to award contracts to operators and encourage them to invest in a modern bus fleet. The Ministry of Energy is considering changing the minimum contract from three to five years.

Combining such regulatory improvements with financial support from the state is more likely to help modernise the bus fleet and significantly reduce air pollution and GHG gases. Financing mechanisms available in Kazakhstan, including grants and other forms of funding, can support the proposed programme and the transition to clean public transport. More effort is needed to focus these sources on clean transport investments.

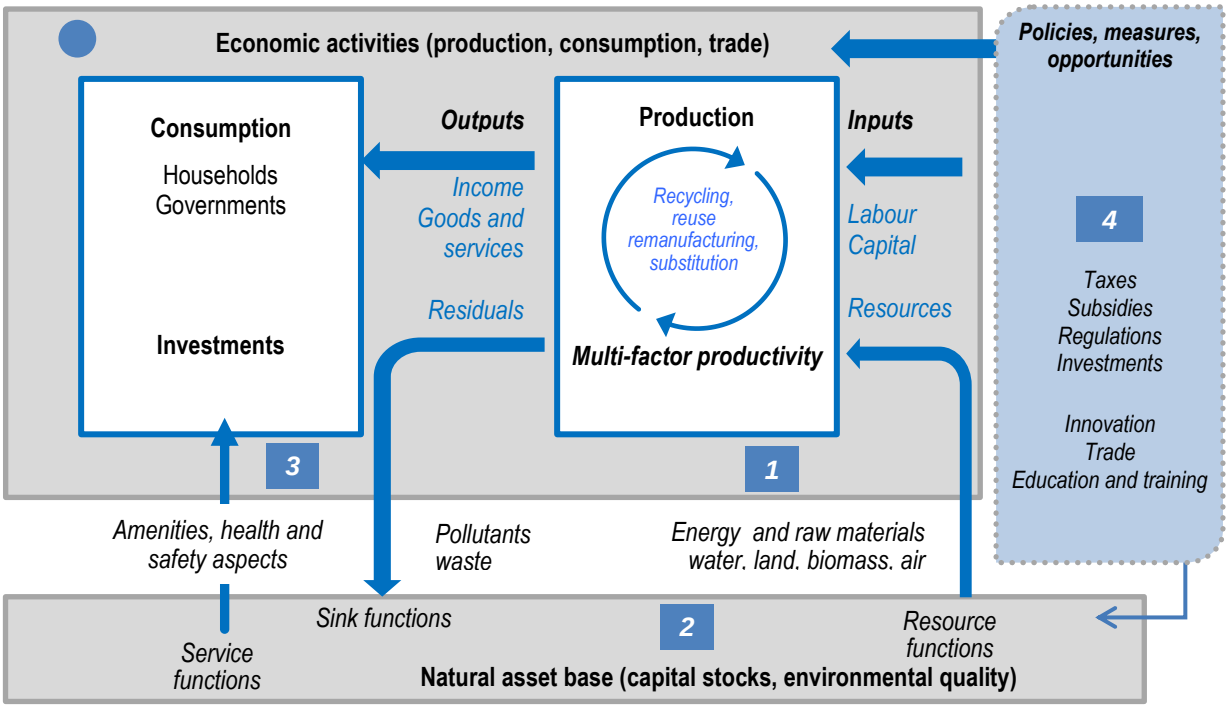
## 4.4. Improving monitoring and promotion of green growth in Kazakhstan

***Reliable data can help develop and promote effective policies***

Developing policies to promote green and balanced growth requires an understanding of the factors that contribute to economic development, taking due account of sustainability challenges and economic and social well-being. Policy makers require information to monitor progress, plan future directions and measure results. Information reflecting internationally comparable data and indicators offers a basis for developing new policies and promoting green growth messages and strategies. Indicators can also help communicate to the public the need for the transition to a green economy.

Introducing green growth indicators and a national database for measuring progress can help identify the conditions for green growth, which cannot easily be captured by a single indicator. The OECD Green Growth Measurement Framework and Indicators are intended to identify the factors relevant for decision makers and the public (Figure 4.7).

**Figure 4.7. Conceptual measurement framework**




1 ***Indicators monitoring the environmental and resource productivity of the economy***
2 ***Indicators monitoring the natural asset base***
3 ***Indicators monitoring the environmental quality of life***
4 ***Indicators monitoring economic opportunities and policy responses***
***The socio-economic context and characteristics of growth***

*Source*: (OECD, 2011[147]).

The framework enables countries like Kazakhstan to communicate a well-balanced set of indicators for tracking central elements of the two dimensions of green growth – the environmental ("green") and the economic ("growth"). Such indicators can support efforts to shift to a low-carbon, resource-efficient economy. This will also help identify policies that address the possible trade-offs between environmental and economic objectives, and the potential side-effects of growth-enhancing policy recommendations that might have an adverse impact on well-being, income distribution and/or the environment.

Kazakhstan's implementation of a green economy framework for measuring and monitoring progress allows for greater international co-operation to advance knowledge, share information and promote common approaches towards sustainable growth. OECD countries have developed indicators appropriate for national circumstances, which together provide a variety of experiences and good practices for comparison and benchmarking. International examples can be benchmarked and taken into consideration for adaptation into the local context. Furthermore, data covering longer periods are needed to assess the impact of policies and projects. Realistically, data and indicators used to assess policy needs and impacts should be identified and developed *ex ante* rather than *ex post*, so the issue should be an urgent priority for policy makers considering green investments or policy initiatives. Timely, reliable and comparable international data will allow Kazakhstan to share its own experiences more efficiently, to identify and showcase best practices and to generate the kind of data needed to identify opportunities and potential projects. Monitoring progress is also valuable for informing the public and promoting common messages about green growth and sustainable development needs.

Effective monitoring and evaluation require more than data. There is also a need to build institutional capacity, clarifying functional roles within government, forming new government bodies as required, and supporting research activities on a national level as part of Kazakhstan's prioritisation of green economy efforts and policies.

### *Green growth and sustainable development indicators*

Kazakhstan is introducing green growth indicators as a tool to evaluate its transition to a green economy. This will help it measure progress at the national level and provide a context for comparison at the international level. The OECD has worked with the Committee on Statistics on the implementation of various indicators at workshops held in Astana (Box 4.1). The workshops focused on the committee's experience in compiling pilot indicators based on the concepts and methods of internationally agreed frameworks, including the OECD green growth indicators framework.

**Box 4.1. Indicators and accounts implementation support workshops in Kazakhstan**

In the context of the Country Programme, the OECD organised workshops with the Committee on Statistics of Kazakhstan in 2015-2016 to introduce standards, concepts, definitions, classification, accounting rules and tables for producing internationally comparable and sound statistics on green growth and the environment:

- The Implementation of the System of National Accounts 2008 (SNA08) Workshop in Astana, held from 24-27 November 2015, studied the implementation of internationally approved methodological guidelines for macroeconomic accounts;
- The Implementation of the United Nations System of Environmental-economic Accounting (SEEA) Workshop in Astana, held from 20-23 June 2016, focused on setting-up pilot environmental accounts in Kazakhstan;
- The Green Growth Indicators Workshop in Astana, held from 23-24 June 2016, discussed the compilation of pilot green growth indicators for Kazakhstan based on the concepts and methods of the OECD green growth indicators framework.

*Source:* OECD (23-24 June 2016, 24-27 November 2015).

The government has developed and is monitoring 30 indicators covering a range of data for measuring ecological and resource productivity, ecological quality of life, economic opportunities and policy response, socio-economic context and growth characteristics, as well as natural assets. Kazakhstan is also planning to introduce an additional 16 indicators in 2017-2018. Further work has yet to be done to develop eight additional green growth indicators, given the lack of primary data for the calculation of certain indicators and the existing methodology available in Kazakhstan.

### *Improving the monitoring framework will support long-term goals*

Developing new indicators and compiling a complete set of national accounts requires detailed input and time. Long-term goals and clear priorities are needed. Prioritisation will support Kazakhstan's efforts to develop a constructive monitoring and measurement framework for green and balanced growth. It is also recommended that clear mandates be established to interpret international standards, particularly as multiple stakeholders are involved in submitting national data. In OECD countries, this is usually the responsibility of the statistical office, sometimes jointly with the central bank (OECD, 2014[77]).

Kazakhstan has succeeded in compiling pilot versions of relevant and feasible indicators. The green growth pilot indicators reviewed by the OECD show promising initial results. Additional work will, however, be needed to address weaknesses in the basic data. Kazakhstan should further analyse this and review pilot indicators to correct weaknesses in the underlying data. After shortcomings in the pilot indicators have been addressed, it is recommended that an additional external review be incorporated before publication of the results. The OECD or another third party may carry out such a review to ensure that any weaknesses in the data have been addressed or clarified. In addition, further recommendations for specific indicators for implementation of the System of National Accounts 2008, United Nations System of Environmental Accounts and OECD Green Growth Indicators are recommended (Box 4.2).

The breadth of work and ambitious goals for putting in place a comprehensive indicators framework require co-operation between work units within the committee as well as adequate allocation of resources across various projects. At the same time, there is a recognised need for co-operation with a wider array of government stakeholders, both users of the monitoring frameworks and contributors to the data for measurement of indicators. Establishing and maintaining the engagement of multiple stakeholders, such as the Central Bank, Ministry of Finance and Ministry of Energy, will facilitate the development and implementation of indicators and accounts.

**Box 4.2. OECD Recommendations for green economy indicators in Kazakhstan**

*Implementation of the System of National Accounts 2008 (SNA08) will require:*

- a complete and up-to-date business register;
- closer co-operation between the Committee on Statistics, the Central Bank and the Ministry of Finance for data collection and delineation of financial corporations, financial accounts and balance sheets;
- measures to improve specific indicators: introduction of properly valued measures (land), introduction of internationally agreed classification systems with large coverage data (mineral and energy resources), sensitivity analysis and consideration of further refinements (for example, Financial Intermediary Services Indirectly Measures or FISIM);
- setting longer-term goals and clearly prioritising objectives.

*Implementation of the United Nations System of Environmental Accounts (SEEA) will require:*

- wider engagement of stakeholders;
- a greater commitment of resources to support its ambitious goals;
- follow-up on the pilot accounts, which represent good first efforts, but which will require identifying and correcting weaknesses of basic data, reviewing SEEA concepts and ensuring that they are applied in the pilot accounts before publication;
- measures to improve specific indicators.

*Implementation of Green Growth Indicators will require:*

- further analysis of basic data to identify and correct weaknesses by *i)* accepting the weaknesses and documenting them, *ii)* improving data or *iii)* avoiding weaknesses and changing the scope of the indicator;
- review of OECD indicator concepts/methods to ensure their proper application in the pilot indicators;
- further external review of pilot indicators before publishing;
- provision of document rationale, concepts, methods and data sources before publishing;
- implementation and improvement of specific indicators for *i)* environmental and resource productivity, *ii)* the natural asset base, *iii)* environmental quality of life, *iv)* economic opportunities and political response measures, and *v)* socio-economic context and characteristics of growth.

*Source:* OECD (23-24 June 2016, 20-23 June 2016, 24-27 November 2015).

## 4.5. Transitioning to a green economy

Kazakhstan faces significant development challenges that raise new issues for long-term growth, environmental sustainability and the efficient use of resources. The government has long recognised this and has been working towards a more sustainable growth model, relying more on efficiency and human capital and less on the exploitation of natural resources.

The government has made many public commitments to address green and sustainable growth, taking steps to strengthen the legislative framework:

- The Strategy for 2050 outlines Kazakhstan's vision for becoming one of the 30 most developed countries in the world by 2050. This goal is linked to targets for GDP growth, economic and social objectives, and provides guidelines for all other policy documents.
- The *Nurly Zhol* (2015-2019) State Programme of Infrastructure Development seeks to build effective infrastructure for long-term growth.
- The Environmental Code incorporates major elements of existing national environmental legislation and international commitments.
- Additional laws have been passed to support renewable energy, energy saving and efficiency, and reduction of GHG emissions.

Kazakhstan has outlined ambitious national economic and environmental targets. High-level goals and targets are included in the Green Economy Concept (GEC), launched in 2013. The GEC sets specific emissions reduction and energy targets such as:

- reducing the energy intensity of GDP by 50% of the 2013 values by 2050;
- ensuring that the share of alternative sources in electricity production is at least 50% by 2050;
- reducing the CO2 emissions intensity of GDP in the production of electricity by 65% by 2050 (G-Global, 2013[71]).

National plans for green reforms have also been reinforced through international platforms such as Kazakhstan's Intended Nationally Determined Contributions (INDC) for greenhouse gas (GHG) reductions as part of the 2015 Paris Climate Conference (also known as COP 21). At the international level, the country has ratified more than 20 environmental treaties, which provide benchmarks for national reforms (IEA, 2015[17]).

Kazakhstan is also promoting its ambitions to achieve green and balanced growth at the international level. It hosted EXPO 2017, on the theme of "Future Energy", with a focus on energy-saving technologies, new technologies and renewable energy sources. EXPO 2017 highlighted its public commitment to green growth and reflected the government's goals for economic diversification, technological innovation and modernisation in its transition to a low-carbon economy.

Despite recent progress, Kazakhstan faces considerable challenges in meeting its targets and its commitments in the GEC. Many of these are no different from the obstacles confronting other emerging and developed economies, including the cost of replacing carbon-intensive infrastructure and production technologies, the difficulty of changing consumption patterns, and the need to persuade the public and key

public- and private-sector stakeholders of the urgency of climate change mitigation and adaptation. In addition to this already daunting list of barriers to overcome (OECD, 2017[47]), Kazakhstan faces:

- top-down and command-and-control approaches to implementation that often reflect inherited Soviet standards of regulation;
- the limited use of market-oriented instruments to incentivise investment in reducing pollution and introducing new technologies;
- powerful vested interests in the hydrocarbon and energy-intensive sectors, often an important source of resistance to greener policies, in addition to the reluctance of many local authorities to implement green reforms; and
- corruption and integrity challenges (see Chapter 2), which make effective enforcement more difficult.

Although many laws and regulatory reforms are in place, priorities still need to be clarified in many cases, and enforcement remains a work in progress in some areas. In line with OECD recommendations, Kazakhstan plans to review the GEC in the first quarter of 2018. It should use this process to measure progress in implementation, collect lessons learned and streamline priorities for the future. The authorities have expressed a desire to reflect in the GEC the principles of sustainable development and the OECD Green Growth Declaration.

Kazakhstan should fill gaps in the existing regulatory framework to enforcing measures on air pollution, waste and environmental violations, and creating incentives for expanding the generation of renewable energy (OECD, 2017[47]). For example, the Green Economy Law (GEL) does not offer substantive provisions in and of itself. It only allows for amendments to other laws, although such changes are not permitted to have any budgetary impact or alter existing conditions on environmental issues. In addition, GEL fails to provide sufficient regulatory impetus for GHG reduction and the energy transition, the areas that require the greatest investment if the GEC is to be effectively implemented (OECD, 2017[47]).

***Support for R&D and international co-operation can advance green growth***

Kazakhstan has launched new national green growth initiatives, bringing together government bodies, businesses and civil society to develop business models, research and new ideas for a green economy. The government supports national research activities including the Green Academy Scientific Research and Education Centre. Kazakhstan has also created technology parks and business incubators to support innovative projects, although none of them are wholly devoted to green initiatives. While some techno park projects do have green objectives and project goals, most have been launched only in the last year or two and are in the very early stages, so it is too early to evaluate their achievements. While clean energy technologies and water conservation can not only support more sustainable growth, but boost technological development and innovation, R&D activity is still poorly financed. Kazakhstan has pledged that by 2020, 2% of its GDP will be devoted to R&D under the State Programme for Accelerated Industrial Innovative Development (SPAIID) 2020, but it is still far short of this goal. Some government-supported initiatives have been launched to increase R&D, but more needs to be done, particularly as such programmes are not specifically devoted to green growth or environmental efforts (see Chapter 3 for more on innovation).

Supporting green growth also offers a chance to adopt the latest international standards and optimise collaborative opportunities. Kazakhstan is recognised for its efforts to engage with the international community on such issues. The Government of Kazakhstan and the OECD have jointly launched the Kazakhstan GREEN Action Platform project which is delivered through the GREEN Action Programme Task Force (Box 4.3). The Platform aims to support implementation of Kazakhstan's adherence to the OECD Declaration on Green Growth. The Platform also provides an opportunity for policy dialogue on priority issues and policy initiatives on green economy, low-carbon, climate-resilient development and environmental law reform. Regular, consistent dialogue using this platform can help build engagement with stakeholders and maximise Kazakhstan's potential green economy potential.

## 4.6. Conclusion

Despite Kazakhstan's historical specialisation in mining and hydrocarbons, its government has for some time proclaimed a long-term goal of transitioning towards a green economy, working to find a balance between economic and environmental efficiency. This is an enormously ambitious goal for a country that is one of the world's leading oil exporters, but it is consistent with the authorities' desire to move towards more knowledge- and innovation-based development.

Making good on green growth commitments, however, is proving difficult, in part because the government still needs a more co-ordinated approach and because the legal and regulatory environment is complex, burdensome and costly for both government and industry (OECD, 2017[47]). Pressing ahead with change is daunting in the presence of powerful vested interests in hydrocarbons and traditional industrial sectors. Much can be done to strengthen public sector policy and analytical capacity, and to scale up green economy activities. The government can also do more to engage non-government entities, including the private sector, regional and international organisations, civil society and academia, in its green growth agenda.

**Box 4.3. Kazakhstan and the OECD GREEN Action Programme Task Force**

The OECD GREEN Action Programme (formerly known as the EAP Task Force) was created in the 1990s to support the countries of Eastern Europe, the Caucasus and Central Asia in improving their environmental policies by integrating environmental considerations into economic, social and political reforms. Kazakhstan has been working closely with the OECD within the framework of the Programme on various projects to develop economic instruments for environmental protection, enforcement and compliance, environmental finance, water supply and sanitation. In November 2016, Kazakhstan became co-chair of the GREEN Action Programme with Germany. In 2015-2016, the OECD and Kazakhstan collaborated on:

- designing a Green Public Investment Programme (with the Ministry of Energy) in line with international practices, focusing on reducing air pollution in the transport sector;
- developing Green Growth/Green Economy Indicators and a System for Environmental-Economic Accounts (with the National Committee on Statistics) to produce internationally comparable statistics on the environment and its relationship with the economy and green growth indicators in Kazakhstan;
- reviewing policies to reduce the environmental impact of mining of minerals and fossil fuels (with the Ministry of Investment and Development), by developing the Code on Subsoil and Subsoil Use in Kazakhstan to improve competitiveness and the business climate, and to attract foreign investment in the mining sector;
- reviewing the effectiveness of the environmental regulatory framework (with the Ministry of Investment and Development), aiming to reform Kazakhstan's environmental regulatory system and lower the regulatory burden and red tape without compromising environmental objectives;
- improving access to climate finance (with the Ministry of Energy) through climate-related development finance by public international climate finance sources, while recognising the importance of mobilising domestic finance and attracting private foreign investment;
- supporting the Water Resources Management Programme (with the Ministry of Agriculture) to find ways to increase returns from multipurpose water infrastructure (MPWI), to reduce the extension of water infrastructure and decrease state financial support.
- A review of mechanisms and instruments of state support to agriculture, rural development and a water-intensive processing industry which continues to affect the water sector in Kazakhstan.

*Sources:* (OECD, 2017[78]) (OECD, 2016[79]).

**Box 4.4. OECD Recommendations to foster green growth**

*Addressing diverse challenges for a green economy*

- Revise environmental quality standards, striking a balance between what is environmentally desirable and what is feasible from a technical and economic standpoint.
- Shift the focus of environmental requirements from penalising non-compliance to re-incentivising and encouraging pollution prevention and control.
- Maximise energy efficiency gains by co-ordinating implementation of minimum standards, performance requirements and other demand-side policies through regulatory support.

*Increasing investments for green growth*

- Ensure a stable and transparent investment environment to encourage both public and private investment, particularly in support of realising Kazakhstan's great potential for renewable energy and building effective energy markets.
- Re-evaluate ways to introduce market-based tariffs and encourage private sector participation, to increase the incentives for investment.
- Support technological and knowledge-based sharing and project development, and encourage private sector input.

*Modernising infrastructure and public utilities*

- Adapt modern technologies and enforce implementation of standards in line with international benchmarks.
- Strengthen the role of multi-purpose water infrastructure (MPWI) in ensuring the water-food-energy and ecosystems security, and for shifting to an inclusive green economy.
- Combine regulatory improvements with financing mechanisms and the support available in Kazakhstan to make the transition to clean public transport.

*Monitoring and promotion of policies*

- Identify and acquire additional data requirements to support strategic planning and monitoring of energy supply, demand and consumption, as well as reporting on environmental pollution.
- Co-operate with a wider array of government stakeholders, whether users of the monitoring frameworks or contributors to the data for measurement of indicators.

*Transitioning to a green economy*

- Review and update the 2013 Green Economy Concept, to help identify progress, collect lessons learned and streamline priorities going forward.
- Continue to engage in international co-operation projects and platforms for policy dialogue in support of both national and international green economy targets.

## *Notes*

[1] In recent decades, many advanced countries have achieved apparently dramatic reductions in both the energy intensity of their GDP and in carbon emissions, as their economies have shifted from manufacturing into services. Decarbonisation through deindustrialisation does not necessarily yield environmental benefits, however. In many cases, such countries now import goods that they used to manufacture from places whose energy mix and production technologies are even less environmentally efficient (Helm, 2012[151]).

# CHAPTER 5

## Strengthening higher education, employment, and social inclusion

*Kazakhstan has experienced impressive growth, which has contributed to a stark reduction in poverty and unemployment (especially for youth), as well as decreasing income inequality and increased access to education. However, the country continues to face significant challenges with regard to job quality, pay levels, educational quality and equity in access to education. Informality and self-employment are widespread, especially amongst youth, older workers and the low-skilled. These groups are more likely to hold poorly paid jobs, with reduced access to on-the-job training, little or no specific social coverage, weak protection under labour contracts and a high incidence of unofficial payment for service provision, especially in education. The first section of this chapter depicts Kazakhstan's current system of higher education, focusing on its governance, quality assurance, internationalisation, and funding. The second section discusses the labour market, describing both its successes and such remaining challenges as poor job quality and skills mismatches. The last section focuses on expanding social inclusion, particularly with respect to people with disabilities, the elderly and gender gaps.*

# 5. STRENGTHENING HIGHER EDUCATION, EMPLOYMENT, AND SOCIAL INCLUSION

In terms of inclusion, Kazakhstan's economy has performed relatively well over the past decade. The unemployment rate has halved from the levels seen in the 2000s, with youth unemployment rates at around one-fifth of their previous level. This, in turn, has resulted in higher wages and increasing incomes. The Gini coefficient has fallen from 0.319 in 1996 to 0.278 in 2014 – a relatively low level, even by OECD standards, and an exceptionally low figure when compared with its regional peers. However, income inequality still has significant implications for access to education. This inequality of access may in part account for Kazakhstan's PISA (Programme for International Student Assessment) scores, which are well below those of OECD countries, with the average reading score far below the OECD average, equivalent to a difference of almost two-and-a-half years of schooling.

As Kazakhstan continues to develop and improve its economic and social well-being, growth will be increasingly dependent on efficiency and productivity gains, underpinned by a healthy, skilled and diverse workforce. To achieve this "high order" growth, Kazakhstan needs to follow through on several recent initiatives to increase access to education, the quality of employment and social inclusion. The government has already taken encouraging steps in numerous areas. These include restructuring the national model of accreditation of higher education institutions, which has helped internationalise Kazakhstan's education system, and labour reforms that have contributed to improved productivity.

More can be done to address the challenges that the country continues to face. In education, for example, reforms need to address the governance of the education system, the funding scheme, and an overly centralised academic system. In the labour market, efforts should focus on improving the matching of skills with industry needs, as well as job quality and informality, which is widespread. Additionally, people with disabilities and health problems as well as older workers, do not fully participate in the labour market, and gender gaps in wages and high-level positions persist. Following through on these reforms will help pave the way for innovation, productivity gains, advanced human capital and a healthier livelihood for the country's citizens.

The first section of this chapter describes Kazakhstan's current system of higher education, focusing on its governance, quality assurance, internationalisation and funding. The second section discusses the labour market, describing both its successes and remaining challenges, such as poor job quality and skills mismatches, particularly with respect to the youth, people with disabilities, and elderly workers. The final section focuses on gender equality.

## 5.1. Governance and funding of higher education

***The governance reform of the education system has yet to be completed***

As Kazakhstan has achieved high enrolment rates in higher education, the government has increasingly begun to focus on the quality of the education provided. The State Programme for Education Development in the Republic of Kazakhstan for 2011-2020 (SPED) aims to "increase competitiveness of education and development of [Kazakhstan's] human capital through ensuring access to quality education for sustainable economic growth" (Government of Kazakhstan, 2010[80]). This modernisation programme provides for interrelated measures covering reforms to the education system's structure, content, technologies, management systems, organisational and legal entities, and financing.

The SPED programme is being realised in two stages. The first stage (2011-15) focused on elaborating the current national model of education and more closely aligning it with international standards. The second stage (2016-2019) focuses on the implementation of those models, in addition to the acquisition of new equipment, modernisation of education infrastructure, staffing, information and methodological support (Government of Kazakhstan, 2010[81]). Through reforms initiated before and since the SPED, Kazakhstan has taken a number of important steps, increasing academic autonomy, updating the unified national test, reforming and expanding the vocational education training (VET) system, and sustaining strong support for the successful Bolashak programme (Table 5.1). The government also continues to promote internationalisation of higher education. Kazakhstan's internationalisation strategy rests on three major pillars: implementation of the Bologna Process, the Bolashak Scholarship Programme, and the establishment of Nazarbayev University. Whilst these have all yielded positive results already, challenges remain.

**Table 5.1. Kazakhstan's recent education governance reforms**

| | Objective | Facts and figures |
|---|---|---|
| **Bolashak Programme** | The long-running Bolashak ("Future") programme has provided talented students an opportunity to study at top universities abroad, acquiring the skills and knowledge they can apply on their return to further develop Kazakhstan's society.<br><br>The SPED projects that one in five students will be engaged in academic mobility through the Bolashak programme. The strategy for academic mobility is the primary policy informing the internationalisation of higher education. | • The state bursaries are worth USD 50 000–90 000 (depending on the host country and the university's status) and cover all education-related expenses.<br>• While 780 scholarships were awarded to study in 13 countries from 1994 to 2004, the goal since 2005 has been to send 3 000 students per year abroad to study at leading higher education institutes (HEIs). The basis of this target was the acknowledged need for specialists in key sectors of the economy. Subsequently, 2 574 scholarships were awarded in the academic year 2005/06 – a Bolashak record.<br>• Current "Bolashakers" have the opportunity to study at 630 leading universities in 32 countries all over the world.<br>• Upon completion of their programmes, scholarship recipients return to Kazakhstan to work in different Kazakh companies, governmental structures, and international organisations for a period of five years. |
| **Unified National Test (UNT)** | This high-stakes assessment serves as a school-leaving exam, but it is also the pathway of entry into higher education for the majority of students who have completed grade 11. It also determines who is eligible to receive a state grant to study. The UNT's impact on the quality of students admitted to HEIs and on student readiness to engage in learning are important factors that affect the quality of higher education. The test could be a powerful driver of learning and teaching behaviour. | • The UNT is said to have increased the transparency of admissions measures.<br>• The UNT continues to undergo reforms since it is seen as covering outdated material. The test is currently being adjusted to ensure that it will measure updated knowledge and skills that are more highly valued in modern economies and societies. |
| **Vocational Education Training (VET)** | The government aims to contribute to Kazakhstan's rapidly expanding economy and labour market needs by helping develop the country's VET system. A series of steps to improve the system has been implemented through the "Serpin-2050" project, first established in 2014. | • Under the leadership of the Prime Minister of Kazakhstan, 432 trustees, 16 regional and 14 branch councils, and the National Council have been established to assist in the expansion and improvement of the technical and vocational system.<br>• Since 2016, the number of technical and vocational education institutions has increased by 1.6%.<br>• A project to increase IT-knowledge formation, "Free Vocational Education for All", will cover unemployed and self-employed young people and people of working age who do not have a professional education.<br>• In 2014, the government budget allocated 3 250 places for technical and vocational training positions to students: in 2014-15, 1 000 places were granted; in 2015-16, 1 200 places; and in 2016-17, 1 050.<br>• 348 colleges have introduced dual education, with the involvement of 1 715 enterprises, covering more than 22 000 students in ten priority areas, including oil and gas, mechanical engineering, agriculture, energy, tourism, mining, chemical engineering and mechanical electronics.<br>• 535 senior managers of local authorities and state-run VET institutions received training in modern management techniques through 31 seminars, workshops and training sessions. |
| **Other reforms** | • Mass digitisation of education monitoring. | • 7 028 schools are now connected to the Internet, with electronic diaries introduced in 4 000 schools. |
| | • Adherence to the OECD Recommendation of the Council concerning Guidelines for Quality Provision in Cross-Border Higher Education. | • Adherence confirmed on 4 April 2016. |

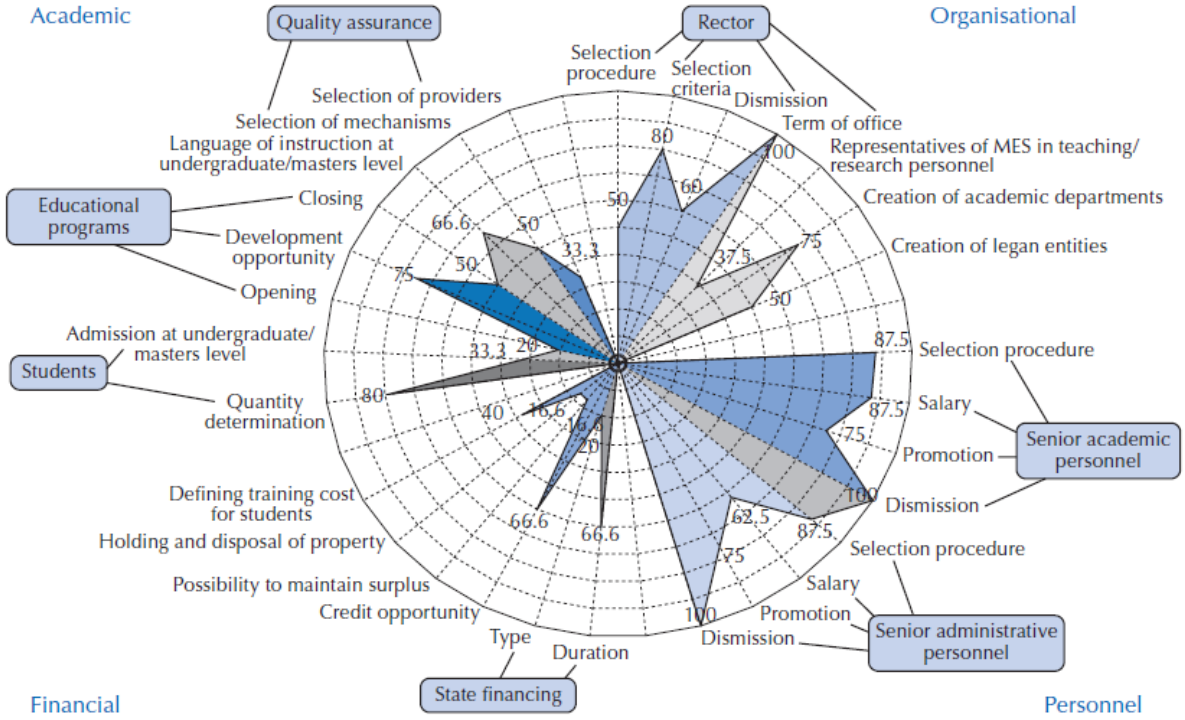
*Sources*: State Programme of Education Development in the Republic of Kazakhstan 2011-2020; Strategic Plan of the Ministry of Education and Science of the Republic of Kazakhstan for 2017-2021; (OECD, 2016[6]); (Republic of Kazakhstan, 2016[82]); (European Commission, 2017[83]); (KazInform International News Agency, 2017[84]); (OECD, 2017[16]).

Further progress will require reforming the highly centralised governance of education institutions, a legacy of the Soviet era. Greater autonomy in curriculum development, budgeting and organisational flexibility are all needed, bolstered by stronger quality assurance on educational inputs and processes. This will bring Kazakhstan's education system closer to international standards. A revamping of its funding mechanisms is also needed, particularly the allocation of grants, so that more sectors of the population, such as poorer families, have improved access to education. Finally, increased public-private dialogue between education institutions and local Kazakh enterprises would help to elucidate the needs of the labour market in terms of skills, research and innovation. The discussion that follows considers each of these priorities in turn.

Discussion of the governance of higher education focuses on three main points: the professional/collegial authority of the academic profession, the market and the government (or managerial) function (Clark, 1983[85]). In most countries, a role for each of these is balanced in an overall strategy for governing higher education, with all three sources of influence acting interdependently. Kazakhstan relies heavily on the "government" function, which has a deleterious effect on efficiency. Joint OECD/World Bank assessments in 2007 and 2015 noted that governance of the education system was largely informed by laws and by the decision-making authorities of the Ministry of Education and Science (OECD/World Bank, 2007[86]; OECD/World Bank, 2015[87]). Poor governance can limit flexibility in methods and curriculum, discouraging creativity and initiative at faculty and institutional levels, which in turn are an obstacle to modernising methods and curriculum. It can also fail to match skills with industry's needs, leading to greater inequality and undermining competitiveness.

The most recent OECD assessment of public HEIs' autonomy looks at four distinct dimensions: the academic, financial, organisational and personnel. The results suggest that Kazakhstan's efforts to make its education system more autonomous are focused on personnel, primarily on the selection procedures (Figure 5.1). There are large gaps in educational programmes and financing mechanisms. According to the Joint Stock Company Information-Analytic Centre (JSC) analysis, while Kazakhstan meets 84% of the criteria established for staffing autonomy and 65% of the criteria for organisational autonomy, only 38% of the criteria for financial autonomy are met. Of the 28 European countries included in this analysis, one-third have higher ratings than Kazakhstan for staffing autonomy and nearly one-half score higher on organisational autonomy; however, four out of five are higher on academic autonomy, and nine out of ten score higher on indicators of financial autonomy (OECD, 2017[88]).

**Figure 5.1. Assessment – autonomy of Kazakhstan's public higher education institutions**




*Sources*: (OECD, 2017[88]); (JSC "Information-Analytic Centre", 2016[89]).

***Restricted autonomy – limiting flexibility and stakeholder engagement***

Since the OECD/World Bank review of Kazakhstan's national education system in 2007, Kazakhstan has gradually increased the autonomy of HEIs, for example, by loosening regulatory controls on curricula or through the establishment of governing boards. The government has recently submitted to the parliament a bill on amendments and additions to some legislative acts on academic and management independence of HEIs, which reportedly aims to expand their financial autonomy. Despite efforts to implement the 2007 OECD/World Bank recommendations, several still await comprehensive implementation. OECD (2017[88]) finds that:

- Accredited Higher Education Institutions (HEIs) still lack full academic autonomy. Institutions are still unable to make their own decisions on introducing new undergraduate and postgraduate courses, course content, examinations, graduation standards and certain changes to entry standards.
- In line with the recommendation that HEIs should set up governing boards with majority external representation in addition to scientific or academic councils, and that governing boards should appoint rectors, Kazakhstan has established Boards of Trustees, supervisory boards and boards of directors.[1]
- HEIs have not yet been given budgetary autonomy and the freedom to introduce income-generating ventures.

The level of financial regulation of HEIs still inhibits flexibility and responsibility. Academic institutions are not able to fully manage and control the allocation of public funding, which limits how responsive they are to the evolution of the educational environment. Restricted financial autonomy has negative consequences

for modernising curricula, the ability to respond to academic trends, and for engagement with outside and international (educational) institutions. A government objective is to boost student mobility flows – both by attracting international students to study in Kazakhstan and by encouraging local students to study in other countries. This requires the internationalisation of Kazakhstan's curricula and student facilities. The rigidity of financial regulation and the overall lack of autonomy undermine the capacity for institutional improvement, including internationalisation (OECD, 2017[88]).

Collaboration between higher education institutions, within or outside Kazakhstan, is rare, which contributes to a lower quality of education. Students report that they sometimes find it difficult or impossible to gain credit for their international experience (OECD, 2017[88]). Institutions' lack of autonomy, especially in programme and curriculum design, is an obstacle to the development of partnerships with international programmes, since it makes it harder to accommodate other universities' programme requirements. It is essential that university staff in Kazakhstan have the freedom, along with the requisite knowledge and skills, to work reciprocally with partner institutions and to develop shared educational programmes.

By strengthening governance and increasing transparency, Kazakhstan could improve the efficiency, flexibility, strength and quality of the education system. The country can go further in permitting academic freedom for individual education institutions to internationalise, engage in partnership, and develop joint programmes. The OECD (OECD, 2017[88]) recommends several steps for education governance reform.

High-quality education requires the decentralisation of academic authority, both within and among institutions. Decentralisation helps institutions better deal with complex and dynamic environments, including being able to respond to the changing needs of students, communities and skills matching. Further decentralising decision-making authority will support efforts to improve academic quality, including the skills of academics, teachers, and leaders. Relaxing curriculum requirements and prescribed content would also facilitate the acceptance of international curricula and greater student mobility.

***Quality assurance should encourage alignment with international standards***

Ensuring quality in education requires substantial capacity at various levels of the system. These include student and faculty qualifications, faculty workloads and professional development, pedagogy, curriculum design and regulatory process, as well as matching education with the current needs of the economy (OECD, 2017[88]). Kazakhstan already has several mechanisms that could improve quality assurance, but some areas are not aligned with international standards. The 2017 OECD Review of Higher Education in Kazakhstan (OECD, 2017[88]) has identified several specific challenges, such as resolving barriers and implementation gaps in the Bologna Process; targeting inefficiencies in the current quality assurance system; broadening faculty development opportunities, which are currently scarce; improving instructional methods; structuring curriculum and the processes that support curricular design; and improving the availability of data on student learning and the labour market outcomes of students.

In addition, the principles underlying governance of HEIs do not entirely conform to those advocated in the European Higher Education Area (EHEA), and which are

outlined in the 2015 Standards and Guidelines for Quality Assurance in the European Higher Education Area (OECD, 2017[88]). Points of deviation include:

- the levels of academic integrity and freedom;
- the processes by which programmes are designed and approved, their linkage with a national qualifications framework for higher education, and ultimately their linkage with the Framework for Qualifications of the EHEA;
- the extent of student-centred learning;
- the teaching and assessment practices;
- the qualifications of teaching staff; and
- the ongoing monitoring and cyclical review of programmes.

Kazakhstan has introduced a national model of accreditation of higher education institutions, and it is currently conducting a gradual transition from state certification to public and professional accreditation. The country also launched a system of separate procedures on final certification in schools and university entrance exams. While it has shifted towards an accreditation approach based on external quality assurance, internal institutional quality assurance and improvement mechanisms, as well as the broader accreditation system, still appear to be underdeveloped. The speed with which a large number of programmes and institutions have been granted formal accreditation by the two national agencies in a relatively short period raises concerns about procedural thoroughness, particularly given the limited number of faculty in Kazakhstan who have the expertise needed to serve on review panels (OECD, 2017[86]).

Education reforms now being undertaken aim to strengthen the quality assurance system, but there is room for further structuring, reinforcement and consistency in acquiring data to stay abreast of changes in the economy and the current needs of education. The OECD (OECD, 2017[86]) identifies several priorities for improvement of quality assurance. It encourages Kazakhstan to place greater emphasis on "21st century" graduate outcomes, anchored by a qualifications framework put in place with decentralised support that enhances the qualifications and professional experience of professors, teachers and academic leaders. In addition, establishing quality assurance processes to facilitate continuous improvement at the institutional and system levels will reinforce linkages between higher education institutions and employers. Finally, developing a strong, reliable and well-disseminated system of labour market information will help analyse the outcome of tertiary education.

***Nascent internationalisation efforts have to be mainstreamed***

The Government of Kazakhstan recognises that a more globally aware and engaged workforce will make important contributions to the economy and society, and that higher education plays a key role in developing this workforce. It also acknowledges the longer-term value of relationships and networks that are established as a consequence of the international experiences of its citizens (OECD, 2017[88]). Kazakhstan has made some progress towards greater internationalisation of its higher education system, most visibly in the establishment of Nazarbayev University, the Bolashak Programme, and the Bologna Process.

Nazarbayev University has been tasked with stimulating the international orientation of education, research and innovation by promoting partnerships and co-operation. A significant proportion of teaching and academic staff comes from top foreign universities, departments, centres and laboratories. Other universities also have an

international dimension integrated in their structure or legal status and partnership agreements with foreign universities through the Erasmus+ Programme. A small but stable number of students study abroad (a large proportion of them in universities in the Russian Federation), but the number of international students who come to Kazakhstan is very small, and the curriculum does not yet have a strong international perspective (OECD, 2017[88]). Furthermore, international academic partnerships, on the whole, remain underdeveloped and declarative in nature. Most institutions lack adequate capacity to prepare students for international experiences or to strategically plan for international engagement.

The Bolashak ("Future") Programme provides further evidence of Kazakhstan's commitment to internationalisation. The OECD (OECD, 2017[88]) identifies the Bolashak Presidential Scholarship Programme as an international best practice. Its contribution to the development of the country is enhanced by the Bolashak alumni network, which is now well positioned in all sectors of the economy. This added value should be reinforced following the recent strengthening of the links between the programme and other national priorities.

**Table 5.2. Kazakhstan's internationalisation strategy for education**

Current challenges and recommendations

| Challenges |
|---|
| Mobility credits have not always transferred easily – if at all – between institutions, even with the recent European Credit Transfer Scheme (ECTS) alignment. This functions as a disincentive to mobility for staff, students and institutions within Kazakhstan and beyond. |
| Little attention has been paid to developing an internationalised curriculum in most institutions in Kazakhstan. The OECD review team observed little evidence of explicit development of international examples, case studies or the development of global perspectives in curricula. |
| HEIs still have limited academic autonomy. |
| The level of English language proficiency among students, faculty and staff is generally low. |
| No effective system of external quality assurance is in place, and international academic partnerships are weak. |
| Gaps in data for institutional and system planning and financial barriers face students who wish to study abroad, which also affect Kazakhstan's internationalisation. |
| **Recommendations** |
| Permit individual higher education institutions to determine the approach to internationalisation that is most appropriate to their aspirations and circumstances. |
| Take a whole-of-government approach to international higher education, with a robust policy framework and national strategy that aligns with Kazakhstan's goals for human capital development. The creation of an inter-governmental committee or group would help ensure a more integrated approach to internationalisation across sectors. |
| Continue the current relaxation of curriculum and prescribed content, to introduce an internationalised curriculum and to enhance student mobility. |
| Encourage collaboration between HEIs and reinforce efforts to identify and disseminate lessons from Nazarbayev University and the national universities on the internationalisation of higher education. |
| Increase investments in digital technologies in order to expand in-country "internationalisation" in the curriculum. |
| Establish indicators on student-, programme- and institution- level mobility that allow for international comparison. |
| Increase the English proficiency of students and of faculty members, to help them take advantage of a wider variety of opportunities for internationalisation. |
| Expand the current scholarships scheme and introduce new forms of financial support for studying abroad, to increase the sector's capacity for international mobility. Lower-cost financial incentive schemes are needed to support a larger number of students studying abroad. The state should consider establishing a mechanism to encourage private contributions to a mobility scholarship fund. |

*Source*: (OECD, 2017[88]).

Kazakhstan has also made substantial efforts to reform its higher education system along the lines of the Bologna framework. The three cycle-system of bachelor-master's-doctorate (Ph.D.) was introduced in 2004, and a special centre was established to manage the Bologna process and academic mobility initiatives (OECD, 2017[88]). Kazakhstan took steps to align national qualifications and credits with the European Qualifications Framework and the European Credit Transfer Scheme (ECTS). The implementation of the Bologna Process has provided substantial stimulus for international student mobility. However, Kazakhstan's internationalisation strategy for higher education (Table 5.2) suffers from limited academic autonomy and quality assurance issues. In addition, the low level of English language proficiency among HEI faculty remains unaddressed, with investment required in both curriculum development and training of professors.

### *The education system has limited funding and equity in access*

The State Programme for Education Development in the Republic of Kazakhstan 2011-2020, updated for 2016-19, recognises the challenges that face Kazakhstan's education system, and has set ambitious targets and goals to address them. Included in the plan is the national financial strategy for higher education, which has been focused on two predominant objectives – internationalisation and financial support for the most academically able students. Other reforms have included a new process for grant allocation, providing faculty with increased access to research materials, and active promotion of higher education research. However, these efforts have not always been effective in supporting knowledge requirements or making education more accessible. Improvements in Kazakhstan's limited capacity for high-quality research continue to be impeded by low public funding for higher education, gaps in current funding instruments, and weak support at the institutional level.

**Table 5.3. Overview of the public higher education budget in Kazakhstan in 2015**

| Purpose | 2015 higher education budget (in KZT 1 000) | Percentage of total |
|---|---|---|
| Capital construction | 4 221 137 | 2.80 |
| Other capital expenditures | 4 579 217 | 3.00 |
| State grants for instruction and student stipends | 87 800 778 | 58.00 |
| Bolashak programme | 14 895 440 | 9.80 |
| State grants allocated to students attending Nazarbayev University | 16 471 289 | 10.90 |
| Other operating and capital expense at Nazarbayev University | 22 911 569 | 15.10 |
| Other expenses | 403 502 | 0.30 |
| Total | 151 282 932 | 100.00 |

*Sources*: (OECD, 2017[88]); (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

### *Limited financing for education*

By international standards, public funding for education in Kazakhstan is low at 3.8% of GDP in 2013, compared to an average of 5.6% across OECD countries in 2012 (OECD/World Bank, 2015[87]). Kazakhstan's private spending on education, which represents about 1.1% of GDP, is still below that invested by peers or aspirational peers (OECD/World Bank, 2015[87]). Low levels of public expenditure

on education have led to heavy reliance on private spending. Private funds are the predominant source of revenue for private institutions, where 88% of students are self-financed or supported from non-public sources (OECD, 2017[88]). Even at public institutions, more than half of the students are self-financed. Private costs prevent qualified low and moderate-income students from enrolling, and these costs possibly contribute to high dropout rates.

The government has acknowledged the negative implications of this spending pattern on access to education, and it is in the process of developing a mechanism to transform private universities into non-profit educational organisations, which may help over the medium to long term. The transition of higher education institutions to new organisational and legal forms envisages the creation of supervisory boards, endowment funds, annual public reporting and financial auditing.

***Access and equity in education***

State grants in Kazakhstan are conferred on the basis of students' scores on the Unified National Test (UNT) or the Complex Test (CT), and their willingness to pursue a degree in a field to which a specified number of state grants are allocated. Generous support is given to students with high scores, but the UNT also tends to favour students from better-resourced schools and those whose parents can afford tutoring (OECD, 2017[88]). Although there is some funding set aside for vulnerable groups and low-income students, grants are typically provided without any consideration of financial need.

Rural students in Kazakhstan are more likely to be of low socio-economic status and to perform less well on the UNT (OECD, 2014[89]). An appreciable number of lower income students without grants who would be able to succeed in higher education are probably not enrolling in academic programmes (OECD, 2017[88]). There is a correlation between the location of students, their socio-economic status, and their academic performance (Ministry of Education and Science, 2014[90]). The relationship of UNT mean scores to income levels confirms a link between poverty and the urban-rural divide.

The state grants approach to financing higher education thus has a negative effect on the participation in higher education of academically able but lower-income students, particularly from rural areas, not least because students from poorer schools are likely to perform less well on the UNT. A 2014 study by the National Centre for Educational Statistics and Evaluation (NCESE) shows that in regions with high numbers of people living below subsistence level, UNT scores were considerably lower. By way of contrast, the high-income cities of Almaty and Astana achieved the highest scores on the UNT in 2012 (National Centre for Educational Statistics and Evaluation, 2012, 2014). To address this problem, the government established a quota of 30% of state-funded spots for rural youth.

***Inefficient targeting of funding***

Generally, funding in the education system is considered to be inefficiently targeted and sometimes poorly matched to its purpose. The distribution of resources to schools is determined on a discretionary and incremental basis by *rayons* in consideration of national norms. There are plans to introduce a new per capita funding model, which is a crucial step towards a more efficient and equitable school funding scheme, but implementation has been delayed (OECD/World Bank, 2015[87]).[2]

There are two contrasting realities presented in Kazakhstan's school network: urban areas suffer from insufficient capacity, while rural areas are considered to have excess. Urban schools tend to be overcrowded, with some operating in three shifts and others experiencing a shortage of student places. In 2013, at least 320 schools throughout Kazakhstan experienced a shortage of student places, requiring a total of 130 000 additional places (5% of the country's total enrolment) (OECD/World Bank, 2015; IAC, 2014). The distinctive feature of its school network is its large geographical coverage, due to a strong policy that ensures universal access to compulsory schooling. Yet, the network is populated with a large number of schools with small classes, which decreases cost effectiveness in delivering education services in rural and remote areas (OECD/World Bank, 2015[87]).

As regards the HEIs system-wide grant allocation, the procedure was not completely transparent to the OECD review team (OECD, 2017[88]).The procedure for deciding state education grants takes into account the main trends in economic development and labour market needs. The government aims to ensure that the economy has high-qualified personnel and more people with higher education qualifications. The government education order for technical and vocational education, postsecondary education, higher education and postgraduate education is based on orders from sector ministries, national companies and Akimats. For government education orders for postgraduate education and higher education, the Ministry of Education and Science holds a contest. To participate, universities submit applications and proposals for the state educational order for that academic year. Interview evidence of the OECD review team suggests that institutions bid on new state-funded spots, and that state and national institutions currently control the majority of these spots. Some private institutions reported to the team that they did not participate in the state grant system.

If the government's intent is not merely to ensure a minimum number of graduates in certain fields, but rather to encourage more students to enrol in particular disciplines due to their relative importance, it is unclear whether the plan is succeeding. The fields where state grants are most numerous are not necessarily the fields of highest enrolment (Table 5.4). The proportion of funding granted to certain fields, such as healthcare or technical sciences, does not result in similar proportions of students in these disciplines, although these figures may converge over time.

**Table 5.4. Educational grants (2014-15) and enrolment patterns (2015-16)**

| Educational grants awarded in 2014-15 (%) | | Proportion of students in disciplines in 2015-16 (%) | |
|---|---|---|---|
| Technical sciences | 41.70 | Education | 28.00 |
| Education | 19.30 | Technical sciences and technology | 23.60 |
| Health (doctors) | 13.50 | Social sciences, economy, business | 16.60 |
| Agriculture | 6.80 | Law | 12.80 |
| Science | 4.80 | Services | 4.20 |
| Service sector | 3.20 | Arts | 4.20 |
| Social sciences, economics | 2.90 | Humanities | 3.40 |
| Humanities | 2.70 | Agricultural sciences | 2.30 |
| Veterinary sciences | 2.10 | Natural sciences | 2.30 |
| Law | 1.50 | Medical services and healthcare | 1.30 |
| Arts | 0.80 | Military science security | 0.50 |
| Military sciences | 0.20 | Veterinary sciences | 0 |

*Sources*: (OECD, 2017[88]); (OECD/World Bank, 2015[87]); (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

To intensify policy reforms and to follow through with implementation of high-quality and inclusive education, Kazakhstan can engage further in several areas (OECD, 2017[88]).

A reform of the system of state grants is recommended. Policy should move away from a framework based entirely on competitive allocation of grants, and ensure that students from poorer families and rural areas are adequately supported to expand their education opportunities. Where students have not been receiving grants, student loans should be made more accessible and affordable.

The relationship between state grants and tuition policy should also be amended. Education tuition fees are coupled with state grant levels (i.e. if the grant is raised, fees must also be raised). The current system makes it impossible for university fees to be less than the state grants. This scheme is not sustainable and would generate further burdens on affordability if per student public funding were to rise.

Kazakhstan should increase the size and scope of public investment in higher education, bringing it more in line with peer countries. On its own, simply spending more is not likely to advance objectives. Allocating public resources in specific areas and focusing on increasing social inclusion (especially to poorer families) will be critical. Support should be directed to those who face affordability challenges rather than reducing tuition fees on a general level. As a result, targeted spending can achieve incremental gains, helping students who could not otherwise obtain higher education. The government is increasing grants to technical professions, and also there are a few categories of individuals who are legally entitled to financial grants (orphans, disabled of 1st and 2nd groups, children from low-income families). Moreover, it has reported that there is an entry quota for vocational education and training, postsecondary and higher education for various categories of disadvantaged individuals In addition to that, there are quotas in place for people from rural areas for "socially important" fields such as social workers, social educators, agricultural and technical specialties.

Increased financing should be devoted to faculty compensation. Salaries in education at every level fall below the national average (JSC "Information-Analytic Centre", 2016[91]). Competitive compensation is crucial in attracting and retaining talented

teachers and researchers. There should also be more investment in training frameworks that are co-ordinated with sector-level public-private dialogues.

It is important to stay current with the growth of digital technologies; new funding schemes should be directed at expanding Kazakhstan's use of technology-enabled and distance learning. Education must now encompass not only fundamental reading, writing, and mathematical skills, but skills and knowledge of sectors and their increased sophistication – of products and their production processes (more about *skills* in the section below).

Data systems should be developed to monitor and evaluate ongoing reforms and investments. An established set of indicators should accompany such systems, for regular monitoring and evaluation of programmes, institution-level mobility, student performance, access, and participation.

## 5.2. Labour market quality and inclusiveness

***The labour market is becoming more flexible***

Kazakhstan continues to reform its labour market regulation, making it more flexible. In January 2016, the government implemented several labour reforms that reduced regulation and increased productivity (OECD, 2017[92]). These have contributed to a reduction in labour costs and increased flexibility for employers. However, these reforms have been challenged by critics as a drag on the freedom of association and on the grounds that they have failed to address job quality. Moreover, the reform of formal labour-market institutions must be seen in the context of widespread informality, which clearly limits the impact of some reforms. Many are self-employed, contributing to low productivity. The government has since begun amending legislation and its enforcement, in an effort to reduce informal employment.

**Box 5.1. Kazakhstan's recent labour-market reforms and programmes**

The government implemented labour law reforms that went into effect on 1 January 2016, which eased regulation, shifted power from employees to employers, and reduced labour costs. These new codes have generated considerable controversy. Concerns have been raised about the laws' practical effects on the freedom of association and assembly.

During a period of economic slowdown, the reforms, in practice, are intended to reduce employment costs and real incomes in sectors where skills are relatively available, whilst having less impact on employees with the scarcest skills. The reforms also aim to improve labour productivity and increase industry sophistication in agriculture, urban manufacturing, and services; this could also contribute to the growth of secondary cities, which could help diversify the economy. In addition, a transition from the equal-bonus payment system to a payment system based on the result (or productivity) of work is taking place in the state sector (Government of Kazakhstan, 2017[93]).

Additionally, under the new labour code, probation periods have been extended, overtime allowances have been reduced, dismissal of workers has been made easier, and collective bargaining has been tightened.

Even with recent progress and reforms, Kazakhstan still suffers from a lag in labour productivity. The productivity of the self-employed is about six times lower than that of those who are formally employed (OECD, 2017[92]). Kazakhstan's SOEs still need to see greater reforms, as many are utilising antiquated Soviet practices that inhibit growth, innovation, and efficiency. Labour productivity is lowest in the informal and self-employed sectors.

The government prioritises mass entrepreneurship and employment. Therefore, it adopted a *Programme on Development of Productive Employment and Mass Entrepreneurship* which aims to improve the quality and potential of labour resources. The government reported that approximately 477 000 people have participated in this programme in 2017 until November 2017. In addition, the government has reported that as of 1 November 2017, 311.7 thousand workplaces had been created, 143.9 thousand of them in rural areas.

The *Employment Roadmap 2020*, adopted in 2011, has since 2016 been focusing on involving the unemployed and self-employed population in productive employment. The government has reported that 800 000 people have used the support measures under the Roadmap. Approximately 580 000 people have found employment, and 130 000 people have undergone professional training.

*Sources*: (Baker & McKenzie, 2016[45]); (PriceWaterhouseCoopers, 2016[46]).

### *Growth in employment is not enough to improve job quality and an acute skills mismatch*

Kazakhstan does comparatively well in terms of job quantity, but it could enhance the quality of jobs. Unemployment and inactivity rates are generally lower and employment rates higher than in most OECD countries:

- The employment rate in Kazakhstan is 67.1%, compared to an unweighted OECD average of 55.9%;
- Inactivity rates in Kazakhstan are 29.3%, compared with an OECD average of 40%.[3]

Long-term unemployment affects comparatively few jobseekers, only one in six. In contrast with most OECD countries, young people (ages 15-24) are more likely to be employed than older adults. Few are not in employment, education or training (NEET). Young people also integrate easily into the labour market. In addition, workers are generally hired under permanent contracts, and enjoy a good work-life balance and job stability (OECD, 2017[90]). The country's strong employment figures mask an uneven quality of jobs. More could be done to promote inclusion of certain socio-demographic groups and regions. As in many other countries, women and low-skilled workers face greater barriers in accessing the labour market. In addition, people with disabilities struggle to find their place in the labour market. Older workers confront considerable hurdles in remaining employed, especially after reaching retirement age, and they are less likely to be employed (54.8% versus 58.1%) than their OECD counterparts.

In addition to the large number of poor-quality jobs, Kazakhstan has widespread informal work and self-employment, salaries are often low, and there are few opportunities for flexible work arrangements, for example part-time. Approximately 20% of the working population is estimated to be working in the informal labour market,[4] 30% of all working people are self-employed, and 28% are considered to be low paid.[5]

Fewer than 5% of those in dependent employment have temporary contracts – a low figure compared to OECD countries, and comparable to the Baltic countries and Russia. Only 2.7% of employees in dependent employment work part-time (less than 30 hours per week), which is lower than the OECD average of 15.3%, but is similar to some Eastern European countries, Russia and the Baltic countries (OECD, 2017[4]). However, these figures likely reflect at least to some extent – the prevalence of informality.

A high level of informal employment often entails low job quality and the associated problems of low paying jobs, limited access to training, and little or no social security coverage or labour protection covered by contracts. Each of these elements has negative consequences for job quality. Several factors may explain the size of the informal sector in Kazakhstan. Working informally is often the only way to enter the labour market, due to insufficient job creation in certain sectors or group-specific obstacles to formal labour market participation.

Employers in urban areas resort to informal employment to avoid taxes and circumvent administrative burdens. Workers' incentives to seek jobs in the formal sector are eroded by the low level of social security benefits (e.g. pensions, unemployment, and social assistance benefits). In rural areas, informality appears to stem from a mix of inherited customs and practices in agriculture, which may be difficult to eradicate and could to some extent be considered as "normal" (World Bank, 2011[94]).

As in OECD countries, low-skilled workers face greater difficulty entering the labour market. Higher inactivity rates are observed among people who hold primary

education or lower (92% versus 20%). These figures suggest that informal jobs are often the only opportunity available to unskilled workers.

**Box 5.2. Links between the informal labour market and productivity**

The Agency of Statistics of the Republic of Kazakhstan estimates that in 2014 around 2.6 million people were self-employed, representing around 30.2% of the employed population. Despite vast (informal) labour utilisation, employment remains concentrated in the less productive sectors of the economy. This has restricted growth, dampened investment inflows, and hindered innovation.

Much of informal and self-employment activity is at the subsistence level, and many of those involved are "unproductively self-employed", i.e. unregistered individual entrepreneurs working in cottage industries and producing goods for their own consumption, or those whose average monthly income is less than the living wage of the region where they live. The self-employed population's productivity is about one-sixth of that of those who are formally employed; the self-employed generate roughly 10% of gross value added even though they comprise approximately one-third of the employed population.

*Source*: (OECD, 2017[92]).

Approximately 28% of all employed people earn low wages (i.e. below two-thirds of median earnings), a very high proportion on an international scale and higher than any OECD country and many emerging economies (OECD, 2017[92]). The evidence suggests that the average monthly income of many informal workers is less than the living wage of the region in which they reside. Roughly 20% of self-employed and informal workers earn less than KZT 20 000, compared to roughly 1% among formal employees. Low pay is most common in certain sectors, particularly in agriculture, for example, where 90% of the workforce is low paid, and in education, where the corresponding figure is 83% (OECD, 2017[92]). As workers face greater uncertainty over their incomes in the long term, without the safety net of a solid social security system, they are likely to moderate their consumption and build a reserve of precautionary savings in the event income is lost.

The minimum wage in Kazakhstan, at 18% of the average wage, is very low compared to the OECD average of 40% and to many emerging economies (OECD, 2017[4]). While the low minimum wage should make it easier for employers to hire, observers argue that the low minimum wage in Kazakhstan is not enough to maintain decent living standards. It can lead to very low wages for workers and in-work poverty. There is some evidence of low minimum wages resulting in lower productivity of workers (OECD, 2017[92]).

Improving job quality – in effect, creating more high-productivity employment – will require addressing several aspects of the labour market including an effective safety net, improving the role of active labour market policies, and skills enhancement. For example, the Public Employment Service could be made more effective, employment measures such as the Active Labour Market Programmes could be more systematically and independently evaluated, sufficient social protection must be ensured for those in need, and informality and non-compliance with labour regulations should be addressed.

Whereas in 2008 approximately half of the firms surveyed considered the workforce to be inadequately skilled, in 2013 the figure had fallen to 13% (Sondergaard and Murthi, 2012[95]) (Ivashenko, 2008[96]). However, Kazakhstan is still seen as lagging behind international standards in certain skills. The targeting and intentional development of cognitive, social, and emotional skills at all levels of education stand out as areas of priority. A prevailing message from employers is that graduates should not only have a good grasp of their domain but that they should be able to apply their knowledge and lifelong learning skills, should use language and technology effectively, should innovate and think outside the box, and, most importantly, should learn on the job (Box 5.3).[6] As informal jobs may often be the point of access to the labour market for unskilled workers, enhancing the skills level is important for better job quality.

**Box 5.3. Updating the basics: new skills to target**

Drawing on decades of educational, psychological, sociological, and economic research, policy-oriented organisations such as the OECD, the Conference Board of Canada, Canada's National Research Council, and the United States' National Centre on Education and the Economy have recommended that educational institutions encourage the development of cognitive competencies (e.g. reasoning, creativity, intellectual openness); fundamental skills (e.g. the ability to use tools such as language and technology effectively, information management, the ability to use numbers, thinking and problem solving); team work skills (e.g. interacting in heterogeneous groups, participating in projects and tasks, leadership); and personal management skills (e.g. acting autonomously and conscientiously, demonstrating positive attitudes, being responsible, being adaptable, learning continuously and working safely). They have also recommended that curricula and complementary educational experiences, teaching approaches and pedagogies, and assessments all be aligned to increase these learning outcomes.

*Sources*: (OECD, 2017[88]); (Conference Board of Canada, 2000[97]); (Pellegrino, 2006[98]); (National Research Council, 2012[99]); (National Research Council, 2001[100]); (OECD, 2008[101]).

Fulfilling 21st century labour market needs will require Kazakhstan to place greater emphasis on transferable skills, rather than domain-specific technical skills and knowledge. This would include making systematic modifications to the inputs and processes higher education uses, helping students better develop knowledge and competences that prepare them for lifelong learning to allow them to succeed in varying challenges that face them in a changing world (OECD, 2017[88]). Such skills are critical for labour market success and for social well-being more generally. Additionally, the government should help the higher education system meet broader public purposes, such as ensuring that civic and political leaders have the skills to advance the welfare of the nation (OECD, 2017[92]). There are several tools that Kazakhstan can employ to improve the match between skills supplied and market demand.

Better indicators are needed to measure skills gaps, especially for important sectors in Kazakhstan's diversification strategy, including in agribusiness and IT business services. Kazakhstan could collect reliable information on a variety of labour market outcomes of its graduates and provide this information to prospective students in

ways they find useful. This could provide an important corrective to current planning approaches and thus help reinforce the alignment between higher education and emerging labour market needs (OECD, 2017[92]).

Kazakhstan implemented several schemes to upgrade its technical and vocational training system, and created sector-specific training centres with linkages to industry. The objective is to establish an interface between the (largely public) education and skills structures with the entrepreneurial sector. Employers could usefully be involved in the design of curricula, however, (e.g. via regional Chambers of Commerce and Industry). Practical co-operation between the education system and the SME sector could also be increased, for example by designing internship schemes between schools and SMEs, to provide VET students with practical business experience and to promote workplace learning (OECD, 2015[102]).

The quality of VET needs to be enhanced to improve its attractiveness as an educational option for prospective students. A priority in this area is to build the capacity of teachers at VET institutions. This will involve dedicated training for existing teachers, a pedagogical module for university students to enable them to teach after completing their studies, and involving professionals and SME entrepreneurs in the teaching body of VET schools (OECD, 2015[102]).

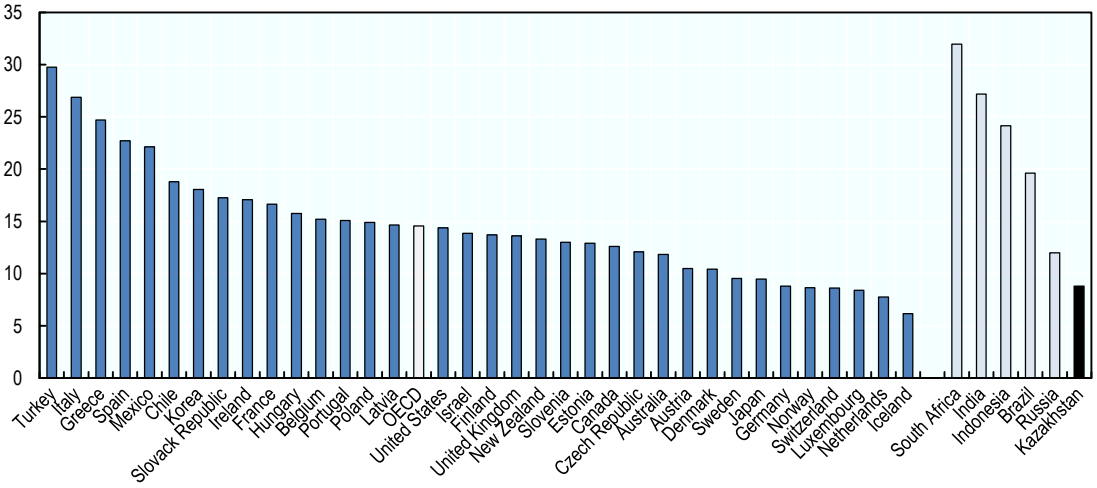
An intergovernmental committee or group could help ensure a more integrated approach to platforms for knowledge-sharing between public and private sectors and to relay skills among institutions and businesses (OECD, 2017[88]). These committees, which could be divided by sector and/or region, may also be consulted for regional- and sector-specific VET policies.

***Offering better access to better jobs for young people***

Kazakhstan's youth unemployment rates are among the lowest in the world (Figure 5.2). However, many young people are employed in low-quality, low-paid jobs, often in the informal sector. Opportunities for good jobs for youth are limited by demand- and supply-side barriers, including labour-market policies that affect hiring costs, as well as social policies relating to family and social protection mechanisms.

**Figure 5.2. Youth not in employment, education or training (NEET) rates, 2014**

Percentage of the population aged 15-29




*Note*: Data for the BRIICS refers to the age group 15-24.
*Sources*: (OECD, 2017[92]); (OECD, 2017[103]); (OECD, 2017[104]); (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

The OECD's publication *Building Inclusive Labour Markets in Kazakhstan* has identified various areas and recommendations to help youth gain access to high-quality jobs, in particular in five areas revisiting minimum wages across regions, adjusting Employment Protection Legislation, continuing to invest in human capital and expanding the skills of youth, encouraging participation of youth in Public Employment Service (PES) and Active Labour Market Programmes (ALMPs) and strengthening income support.

High labour costs are an especially large barrier to employment for youth as they are the least skilled and lack work experience (OECD, 2017[4]) Even though Kazakhstan's minimum wage is very low, it does not reflect differences across regions and workers' productivity. Non-wage costs are set to rise in the future, following reforms in the pension system and the introduction of mandatory health insurance. Kazakhstan should try to maintain low non-wage costs and examine the consequences of increasing the social security contributions of employers. Higher taxes on employers could push wages downwards, reduce formal hiring and/or encourage employers to pay untraceable amounts "under the table" in addition to regular earnings, to compensate for increased non-wage costs. Employers should follow complementary policies such as monitoring and enforcement of regulations to reduce informal practices in the labour market.

Kazakhstan is encouraged to reassess its minimum wage policy. Minimum wages could be revised based on accurate, up-to-date and objective information taking into account the views of social partners. To further such efforts, Kazakhstan should consider establishing an independent expert commission with trade unions and employers' organisations. The OECD noted that undifferentiated minimum wages can place a burden on employers if they fail to reflect regional variations (OECD, 2017[4]). Unlike countries such as South Africa and the Russian Federation, Kazakhstan employs an undifferentiated minimum wage, which in theory could

create barriers for youth access to the labour market. Nonetheless, Kazakhstan's minimum wage is low, at only 18% of the median income, and lowering it further may do more to worsen in-work poverty than ameliorate access for youth to the labour market. For these reasons, it is not advisable for Kazakhstan to lower its minimum wage, and if a differentiated minimum wage is introduced, revisions to the current minimum wage should be made first.

By international standards, employment practices liability on regular contracts is strict in Kazakhstan, while EPL on temporary contracts is lax. Moreover, Kazakhstan does not have a definition of (or procedure for) collective dismissals. The recently reformed Labour Code has introduced more flexible regulation on permanent contracts by, for example, expanding grounds for fair dismissal, and has further liberalised temporary contracts by enacting such reforms as allowing employers to renew temporary contracts twice. Kazakhstan should undertake complementary measures to ensure that displaced workers receive the necessary social protection and assistance to find new jobs, including effective re-employment services and income support in the event of job loss.

Policymakers could do more to encourage participation of youth in PES and ALMPs. Very few unemployed youth register with the PES in Kazakhstan due to the poor quality of vacancies offered, the low and infrequently provided targeted social assistance and unemployment benefits, as well as burdensome registration administrative procedures and strict job-search requirements. In addition, participation and spending on ALMPs in Kazakhstan is very low by international standards and has decreased further in recent years. Expenditure on ALMPs was 0.27% of GDP in 2013. It was reduced by 60% in 2014 and was further cut through 2016. This is significantly below the OECD average of 0.56% in 2014 (OECD, 2017[4]). Approximately 4% of youth in Kazakhstan participate in ALMPs, which is approximately half of the average of European OECD countries (OECD, 2017[92]). Kazakhstan has not yet carried out a formal impact evaluation of its ALMPs. ALMPs should be rigorously evaluated to better understand whether programmes should be continued or expanded, whilst also understanding which participants are in need to be targeted. The PES could be strengthened by expanding its staff and/or improving the quality of the vacancy bank. Providing more generous benefits is also likely to increase the incentive to register with the PES.

The government should make efforts to enhance the skills of youth through increasing access to high-quality education, and to improve career guidance to assist youth with decisions about their studies. For example, students need comprehensive information about employment and pay prospects for various careers. Many students are not ready to make informed decisions about their careers after completing basic and upper secondary education (OECD, 2017[92]). Kazakhstan is encouraged to improve its data collection and the use of existing data sources.

Youth in Kazakhstan can access a variety of income-support programmes, such as unemployment benefits and targeted social assistance (TSA). However, unemployment benefits are not sufficient in case of job loss. They are very low compared to OECD countries, at 31% of previous net earnings for a single person who was formerly employed on a low wage, as opposed to the average net replacement rate of 64% in the OECD area (OECD, 2017[92]). Coverage of youth by unemployment benefits in Kazakhstan is comparatively low, no unemployment assistance is offered for young jobseekers, and severance pay is low. TSA benefits

are arguably too low in Kazakhstan to help families and youth out of poverty. The income protection system needs to be strengthened, for example, by providing more generous unemployment and social assistance benefits for a limited duration. Lastly, young families need more support through policies encouraging fathers to share family responsibilities, increasing income support to parents and ensuring access to good-quality childcare.

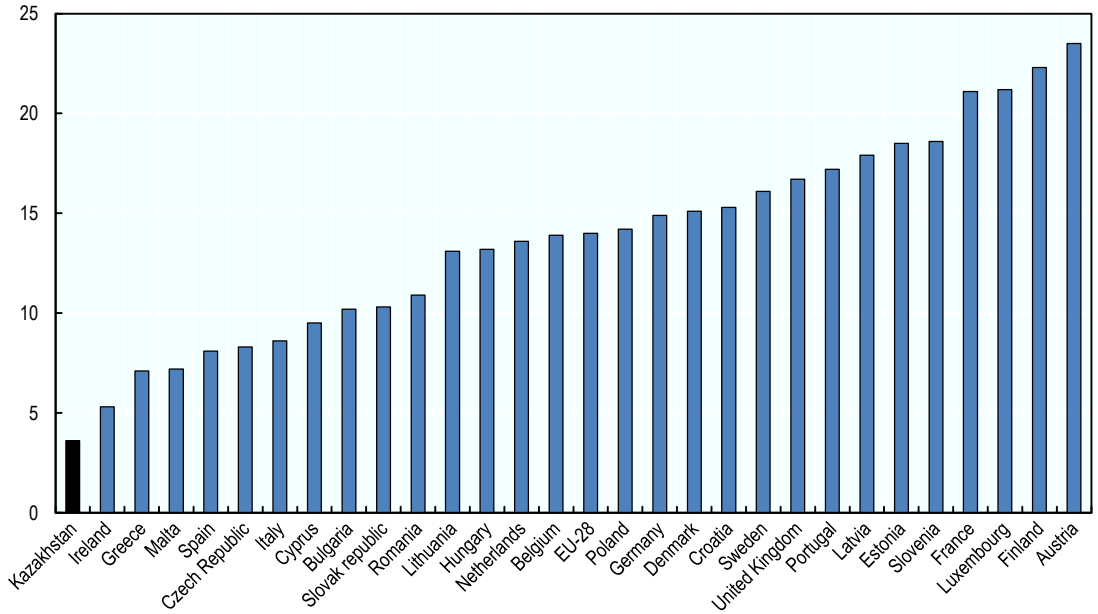
### *Lifting barriers to labour market integration for people with disabilities*

Kazakhstan faces the challenge of creating more and better labour-market opportunities for those with health problems or disabilities. The government has begun amending legislation and its application to address these challenges, but much remains to be done, especially in the enforcement of policies and data retrieval.

Data provided by the Ministry of Labour and Social Protection show that the number of people with disabilities has remained relatively stable in the recent past, at around 627 000 or 3.5-3.7% of the total adult population since 2010 (OECD, 2017[92]). This figure is low by international standards. In the European Union, for example, the corresponding proportion is 14% (Figure 5.3). This reflects Kazakhstan's narrower eligibility criteria for a disability. The number is likely to increase in view of Kazakhstan's recent efforts to align its definition with international standards.

**Figure 5.3. Percentage of people with a disability in EU member states and Kazakhstan[7]**

As a percentage of total population (aged over 16 years), 2011




*Sources*: (OECD, 2017[4]); (Eurostat, 2017[105]); (Committee on Statistics of the Republic of Kazakhstan, 2017[8]).

People with recognised disabilities have significant difficulties integrating into the labour market. While most people with disabilities have some capacity to work, few are actually employed.[8] Recent data show that the employment rate for those with disabilities in Kazakhstan is 22%, about half the corresponding EU average

(Committee on Statistics of the Republic of Kazakhstan, 2017[8]), (Grammenos, 2014[106]). Among those who have a job, under-employment and weak labour utilisation are key concerns – only 62.8% of employed people with disabilities work full-time. When they are employed, few manage to retain their jobs. Those with a job are often underemployed[9] and are likely to have unstable employment (two-thirds of those with a job have a temporary contract) (OECD, 2017[92]). People with disabilities generally have lower educational attainment than the general population. Only 11.4% have higher education, in contrast to a figure of 25% for the total population (OECD, 2017[92]).

Several targeted measures to support jobseekers with disabilities were introduced in 2015. The system of compulsory job quotas for people with disabilities was updated. Previous legislation had set a fixed quota of 3% for all firms, but this has been replaced by a scheme of multiple quotas, which vary between 2% and 4% depending upon the size of the firm. Additionally, the government has strengthened provisions to support private investment to upgrade the quality of workplaces for people with disabilities. Special subsidies are available for such investments, provided certain pre-defined standards are met.

The Public Employment Service (PES) is responsible for helping disabled jobseekers stay connected to the labour market based on the recommendations formulated by the Medical and Social Expert committees. The PES monitors the enforcement of compulsory employment quotas, and co-ordinates and supports clients' access to active labour market policy and vocational training. Although these efforts have moved Kazakhstan along in increasing social protection for persons with disabilities, several of these programmes are understaffed and under-funded, limiting their impact (OECD, 2017[92]).

Against this backdrop, the government could increase efforts in several areas to expand opportunities for people with disabilities in the labour market (OECD, 2017[4]).

It is of critical importance to establish a structure of incentives that work for all the parties involved – people with disabilities, employers and the state. Subsidies are the most commonly employed policy measure in OECD countries for promoting employment opportunities for people with disabilities. While accessibility represents a key objective, the subsidy needs to address a package, which in addition to accessibility must involve support for training (before and after recruitment of a person with disability), on-the-job assistance and awareness-raising coaching for managers and co-workers.

Kazakhstan should ensure that the wage subsidy system is well targeted to the needs of the employer and the employee, and is flexible over time to reflect changes in an individual's capacity to work. The subsidised share should decrease gradually and in line with the experience gained and the skills acquired as these are reflected in productivity.

Early intervention can be facilitated by making assessments and providing support quickly, to ensure that claimants do not remain inactive for too long. Provision of benefits and services on a one-stop-shop basis is also useful.

An integrated approach – including employment promotion measures, vocational rehabilitation, as well as the enforcement of the quota system – has already shown progress in Kazakhstan and should achieve good results. Profiling should be

sufficiently individualised and effective in bringing together all relevant information for each client, based on medical files, employment history, and any services previously provided. Services should be designed in a way that encourages clients to move to the regular labour market. It is advisable that every claim for a disability benefit be treated as a request for rehabilitation. The Individual Rehabilitation Plans could also be modified to make the recommendations on services and provisions more specific, and to include an individual's path to vocational training and job search.

In Kazakhstan, only one-third of quota jobs are taken up by employees with a disability. Local executive bodies (*akimats*) should have more flexibility in setting regional quota rates in collaboration with employers and disabled persons' associations. Disabilities could also be differentiated by severity of impairment. It would also be beneficial to provide to employers options to follow in case they cannot hire enough people with disabilities.

People with disabilities should have access to generic employment programmes. This "mainstreaming" is used in many OECD countries as a good practice. Services should be designed and delivered in a way that encourages clients to move into the regular labour market whenever possible. Maintaining a close relationship with caseworkers is essential over the duration of service use, to ensure that caseworkers can promptly and systematically refer their clients to the services needed at each stage and continue to help them adapt to the labour market. Any negative incentives – for either clients or caseworkers – that may hamper such progress should be removed.

With the exception of those suffering from severe health problems, Kazakhstan should ensure that disability benefits are temporary. Kazakhstan needs to maintain efforts to ensure that the assessment is conducted quickly and corresponding support is distributed speedily. They are essential to counter the risk that claimants remain inactive for too long, thus losing contact with the labour market. Entitlements and disabilities need to be re-examined at intervals, as in most OECD countries. "Denial rates" in Kazakhstan are very low, with only 5% of claimants found to be no longer eligible as a result of their improved health/disability status. There is evidence to suggest that the problem stems from the understaffing of medical and social experts (MSEs) evaluating commissions in Kazakhstan, though it may also reflect narrower criteria for the initial classification (OECD, 2017[92]).[10] This suggests that entitlements are permanent for the overwhelming majority of recipients. Since remaining on benefits is harmful both for the state and the recipient (wasting opportunities for better social and economic integration), Kazakhstan should also consider making the re-assessment system more flexible. For example, disability benefits could be allocated for a given period of time. At the end of this period, the benefit and the length of the following period would be re-assessed.

It is suggested that during disability assessments by the MSEs of those applying for unemployment benefits, the priority should be given to a person's remaining work capacity. It is preferable that a multidisciplinary team assesses the client's social characteristics, work abilities and aspirations.

Finally, it is important to strengthen anti-discrimination laws. Kazakhstan should ensure that any decision to refuse to hire an employee, terminate a contract, or transfer employees to another job without their consent on grounds of disability is taken following a concerted approach. This should involve both employers and

workers' representatives. Any differentiations in regulation by categories of clients (for instance, the blind and the deaf) should be avoided. Kazakhstan is encouraged to use the term "person with disability" in the legal setting and to avoid regulatory differentiations among clients.

***Reducing early exit from the labour market for the elderly***

Despite a generally favourable labour market, the elderly population struggles for access. Participation in the labour market stops abruptly at, and sometimes before, retirement age, and those few people who continue working often hold low-quality jobs in the informal sector. There are several institutional factors that contribute to early exit from the labour force, such as the low retirement age, the absence of incentives to continue working after retirement age, and, in many cases, the poor health of older workers.

One reason for the low participation of older workers in the labour market is the low retirement age – 63 for men and 58 for women. Withdrawal from the labour market typically starts, however, two to three years before the legal retirement age. Most OECD countries have the same pensionable ages for men and women, often around 65, and many are gradually raising this or plan to do so in the future, to 67 or even higher. As a consequence of these factors, the inactivity rate for those aged 55-64 in Kazakhstan is 42.4%, somewhat above the OECD average of 39.5%, and, as noted previously, those who wish to remain in the labour market are less likely to be employed. Moreover, the employment rate for those aged 65-69 (12%) is about half the OECD average (24%), and members of this cohort are far more likely to be inactive (87% as compared with the OECD average of 74%).[11]

Poor health also prevents many from continuing to work at older ages. Working conditions are often ill-suited for older workers in Kazakhstan: in 2012, one fifth (22%) were still exposed to harmful and dangerous working conditions. Life expectancy is around 10 years below the average for OECD countries; and the incidence of accidents in the workplace remains comparatively high by international standards, with 3.1 fatal injuries per 100 000 workers in Kazakhstan in 2013, compared to an OECD-EU average of 2 (OECD, 2017[92]).

The pension system is also undergoing a deep transformation.[12] In January 1998, Kazakhstan introduced a major reform of the old-age pension system that aimed at gradually replacing the public pay-as-you-go defined benefit (DB) regime with one based on mandatory, fully funded defined-contributions (DC) to individual accounts, similar to the Chilean model. The DC scheme will become the dominant source of retirement pensions as soon as the DB plan is completely phased out. More recently, the government has introduced a further reform of the system which aims to provide more adequate old-age pension benefits and increase the incentives to contribute. The main features include the gradual increase in the retirement age for women, the introduction of pension credits, the integration of a notional defined contributions plan, and a revision of the calculation of the basic state pension.

A number of challenges still remain, including: the low standard pensionable age needs to be gradually raised; adequate pension benefits should be granted to pensioners; and more could be done to enhance financial incentives to work after retirement age for those able to do so.

Improving the integration of older workers into the labour market will require strengthening their employability, encouraging employers to hire and retain them,

and making work rewarding for them. The OECD has made several recommendations.

Occupational health and safety for workers at all ages should be improved. This will benefit current and future generations and help older workers remain in employment longer. According to the Committee of Statistics of Kazakhstan, 22.1% of the 1.6 million workers examined in 2015 were exposed to harmful and dangerous working conditions. Approximately 85% of new cases of occupational morbidity were among workers older than 40 in 2014, and older workers were slightly more likely to have accidents at work than the younger ones. (OECD, 2017[92]) The government should strengthen monitoring and compliance with existing occupational health and safety regulation. Effective occupational health-care services can also play an important role, both in preventing work-related health problems and in promoting employment reintegration. Targeted incentives to both firms and older workers are needed to ensure that policies encourage the constant upgrading of skills. The role of (re-)employment services in helping older workers get back to (formal) employment must be strengthened. To this end, it is important that the participation of older workers in ALMPs is increased, and that existing programmes are well targeted to those most likely to benefit from the programme (age alone is not a valid target). Early job-search assistance in case of dismissal is also crucial to maintain older workers' attachment to the labour market.

Employers appear to be less willing to hire and retain older workers. Kazakhstan is encouraged to continue its efforts in decoupling compensation from seniority, while aligning it more strongly with productivity and qualifications. The government should also take measures against discrimination, including reinforcing legislation and implementation mechanisms, and public-awareness campaigns.

The elderly need to receive adequate pensions. Any form of informality in the economy must be combatted to expand the coverage of the pension system and guarantee more adequate pension benefits at older ages. A comprehensive government strategy along these lines could tackle both demand- and supply-side barriers to formalisation. Further, the government should provide incentives to take up voluntary private pensions. This could be achieved by providing financial (e.g. tax relief, matching contributions) and nonfinancial (e.g. automatic enrolment, compulsory requirements) incentives to enrol in voluntary private pension schemes. In addition, Kazakhstan needs to disseminate information about the pension system and benefits of working longer, while keeping in mind that frequent regulatory changes could undermine such efforts.

Kazakhstan should enhance incentives to work beyond retirement age for those still able to do so. This could be achieved by a mix of policies: 1.) introducing more flexible work arrangements and part-time opportunities to older workers; 2.) offering the option of partial or deferred withdrawal; and/or 3.) providing financial incentives to work past retirement age. Wider utilisation of part-time work by older workers may help them remain attached to the labour market, while taking into account changes in their health and physical capacities.

## 5.3. Gender equality

***Kazakhstan has taken action developing policies to curb gender inequality***

Kazakhstan has adopted several policies on improving gender equality with some indications of progress. The National Gender Equality Strategy (2006-2016) was enacted, followed by with specific action plans for implementation. The government then adopted the Concept on Family and Gender Policy for 2030. The goals of the Concept in regards to gender policy include: developing public sector capacity, increasing international collaboration, reducing stereotypes in education and employment, and combatting violence against women.

On an international level, the government recently made the pledge to uphold the Beijing Platform of Action at the United Nations Global Leaders' Meeting on Gender Equality and Women's Empowerment and the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). In pursuit of the Sustainable Development Goals, Kazakhstan committed to adequately finance gender equality initiatives, establish strong, transparent and open accountability mechanisms within the government, and utilise high-level comparable gender data in all aspects of gender equality.

Progress in reducing gender disparities is visible in the education sector. Gender access and enrolment in education are fairly equitable, but the professional world still sees gendered roles in occupation and status (OECD, 2017[19]). Kazakhstan is close to gender parity in access to education. Literacy rates for women and men are 99.7% and 99.8% respectively, as indicated in the 2017 Gender Gap Report of the World Economic Forum (World Economic Forum, 2017[107]).[13] According to official statistics, net enrolment in primary education is 99.5% for females and 98.1% for males.[14] Net participation rates in secondary education are also comparable for females and males. The tertiary education net enrolment rate is 57.3% for females and 45.2% for males according to official statistics.[15] Finally, government statistics indicate that women make up 60.2% of students in Master's programmes and 61.7% of doctoral students (the OECD reported a slightly higher rate of Master's students at 64% and a slightly lower rate of doctoral students at 58%) (OECD, 2017[19]). Women nevertheless continue to be overrepresented in traditional areas of study, and are less likely to participate in science- and technology-related studies (OECD, 2017[19]).

***Gaps remain in women's participation in the labour market***

According to official statistics, women's labour force participation in Kazakhstan is 64.1% while it is 76.6% for men.[16] In particular, an increasing number of women are working in SMEs. Between 2006 and 2016, the share of women employed in the SME sector increased from 38% to 50% (OECD, 2017[19]). According to the 2017 Gender Gap Report of the World Economic Forum, gender gaps in women's labour force participation are relatively low in Kazakhstan; it ranks 29th out of 144 countries on female participation in the workforce.

However, disparities in terms of wages, share of self-employment and informal employment are problematic. Women represent 70% of all employees in sectors that are traditionally "feminised", most notably education and healthcare, where wages tend to be low. On average, women's salaries are 68.6% of men's across sectors,

although the gender pay gap shrank from an estimated 38% to 33% during 2006-2016 (OECD, 2017[19]).[17] Many women are also self-employed, and may lack decent working conditions. Such circumstances create greater employment instability, which lends itself to security and financial restrictions. One in three women in rural areas is self-employed, including those who live on subsistence farming. Most of this income is non-monetary self-consumption, restricting their opportunity to invest (OECD, 2017[19]). Informal working arrangements result in a greater likelihood of poorer working conditions, fewer social security benefits and smaller pensions.

Women also face greater difficulty moving up the management ladder. At directorial and executive levels, in both public and private sectors, women are largely absent. For example, according to official statistics, while women make up 55.4% of administrative civil servants, they make make up only 10.1% of political-level civil servants. In 2016, women occupied only one out of the 13 ministerial positions. According to official statistics, women comprise 48.3% of all judges, but only 41% of Supreme Court judges in Kazakhstan, and only 10.5% of the chairpersons in courts and court collegiums.[18] According to World Bank figures, only 4.2% of large corporations are led by women.

***Gender equality policy must advance towards OECD standards***

Given the considerable improvement that has been made since the early 2000s, there are several additional steps Kazakhstan can take to strengthen currently-used instruments. Generally, they cover the themes of promoting equal access to top positions; legislating and monitoring wage equality in all sectors; legislating and implementing requirements regarding the representation of both genders on the boards of directors following the OECD Council Recommendation on Gender Equality; and, promoting programmes to attract and train women in industries currently dominated by men. The OECD Gender Policy Delivery Review provides specific methods to help achieve these thematic goals (OECD, 2017[19]).

Kazakhstan would benefit from aligning the vision and policy for gender equality with the overall development vision, and with policies and programmes across a variety of sectors and levels of government. The 2015 OECD Recommendation on Gender Equality in Public Life highlights the importance of a "whole-of-government" approach, to ensure that policy is planned across public institutions. This would make implementation and progress much easier to track and measure. A successful practice is the "cascade" approach, in which the government sets strategic goals, which are then mapped onto high-level objectives and "output" goals for line ministries and agencies (OECD, 2017[19]). Government institutions should receive training and coaching, as well as more resources, to apply a gender-based approach to policies. Kazakhstan is encouraged to use gender impact assessments. These are now being set up, but only in regards to primary legislation, and they face some challenges in implementation.

In Kazakhstan, gender equality promotion usually focuses on improving women's status in certain areas such as education, entrepreneurship, access to political opportunities and healthcare. This is partly the result of limited funding and ministry capacities to implement gender policy. Yet more attention should be given to gender mainstreaming in the implementation process. Kazakhstan should further support the dual approach to gender equality, by embedding gender considerations in all policies while adopting specific measures.

Currently, akimats (local governments) lack the awareness of the importance of integrating gender perspectives within the local policy making and implementation. They are also not much involved in the design of gender-equality policies. The focal points in the administration and various levels of government could have more presence, gender expertise and capacity. Gender focal points should be appointed in local elected bodies and executive bodies, and report to senior leadership of the relevant ministry and to the National Commission. Training programmes must be established across the administration and various levels of government on topics such as gender equality and mainstreaming, collection and analysis of gender-disaggregated data, and the use of tools for gender-sensitive policy making.

It is important to ensure that gender equality and family policies have clearly demarcated goals, objectives, and output and outcome indicators. These should be supported by gender-disaggregated analysis, realistic targets, clear roles and responsibilities, monitoring and evaluation mechanisms, and long- and medium-term strategic visions. An annual "whole-of-government" report on implementing the gender equality strategy should be considered.

Comprehensive stakeholder involvement should be improved. All government stakeholders involved in the implementation, monitoring and evaluation of gender strategies face difficulty in participation in view of limited resources. Moreover, line ministries have limited capacity to conduct research, analyse information and develop projects beyond their strategic plans. Local, city and regional councils do not fully engage non-governmental stakeholders.

The government is encouraged to strengthen the capacity and institutionalisation of national gender institutions such as the National Commission. This applies to their statutory authority, mandate, access to decision-making processes across the government, as well as access to governmental and non-governmental bodies.

Kazakhstan must establish accountability and oversight mechanisms. For example, the role of the National Commission could be strengthened, granting it oversight over gender equality policies. It would benefit from stronger ties with the Ombudsman and the Prosecutor General's Office. Co-ordination across horizontal and vertical government levels should be further institutionalised. Good practices, research and other information would be better shared through formal co-ordination mechanisms. Gender considerations must be integrated into sectorial plans and programmes.

Some public entities already have initial elements of Gender Responsive Budgeting (GRB). Gender considerations need to be further integrated into the budgeting process, and accompanied by relevant training and capacity building.

Lastly, the scope and depth of gender-disaggregated statistics needs to be strengthened, while data collecting and producing bodies should have more co-ordination. While Kazakhstan does compile some gender-disaggregated statistics, not all line ministries use them, and some data lack accuracy (OECD, 2017[19]).

## 5.4. Conclusion

Kazakhstan has made considerable progress since the turn of the century in bringing education and labour market policies in line with international standards. Clear results have been seen in both areas. In education, efforts show the gradual move away from centrally planned educational governing systems to a greater autonomy of

institutions, through advisory governing boards. Regulatory control of curricula has been loosened, underpinned by a national model of accreditation of higher education institutions, with a gradual transition from state certification to public and professional accreditation. Increased productivity in the labour market has been seen together with an improvement in matching skills with industry needs. Several challenges still afflict Kazakhstan's economy, such as a dearth of social inclusion in the labour market, unequal access to education, restricted autonomy and flexibility in the education system and the quality of employment. The government's pledge to complete these policy reforms requires increased efforts to implement and enforce relevant legislation and regulations, many of which have already been enacted.

**Box 5.4. OECD Recommendations on higher education, employment and social inclusion**

*Education*

- Allow individual education institutions to have more academic autonomy to engage in partnerships and develop joint programmes.
- Place greater emphasis on "21st century" graduate outcomes, anchored by a qualifications framework and underpinning reinforced linkages between higher education institutions and employers – in the private and public sectors.
- Establish quality-assurance processes to facilitate continuous improvement at both the institutional and system levels.
- Relax curriculum and prescribed content to enable an internationalised curriculum and student mobility.
- Increase the size and scope of public investment in higher education, bringing it more in line with levels of peer countries.

*The labour market and social inclusion*

- Establish indicators that assist in observing and analysing the current economic climate and its subsequent labour force needs. Indicators should help measure and highlight the skills gap, especially for important sectors in Kazakhstan's diversification strategy, including in agribusiness and IT business services.
- Improve the quality of jobs by introducing a more differentiated minimum-wage structure and through increasing incentives.
- Ensure that lifelong learning policies encourage constant upgrading of skills over the working life. This should be done by providing targeted incentives to firms, older workers and people with disabilities (PWD) to invest in skills. Strengthen the role of re-employment services in helping older workers or PWD get back to (formal) employment.
- Strengthen anti-discrimination laws. Ensure that any decisions to refuse to hire, terminate a contract, or transfer an employee to another job without her/his consent on the ground of disability be taken following a concerted approach.

*Gender equality*

- Legislate and monitor wage equality in all sectors and representation of both genders on the boards of directors, following the OECD Council Recommendation of Gender Equality.
- Strengthen women's participation in managerial roles and high public office positions.
- Promote mainstreaming of gender issues across multiple levels of government and policy making.

[1] Boards of Trustees operate in 65 universities. They include representatives of educational organisations and management bodies; employers and social partners; public organisations, foundations and associations; and sponsors. Boards of Trustees provide support in carrying out social, cultural, recreational and development activities; assist in establishing and developing international co-operation in education and training; assist disadvantaged students with obtaining education, their living conditions and employment; and submit proposals on improving activities of educational organisations.

Supervisory Boards operate in 28 universities, with the participation of representatives from the parliament, the Ministry of Education and Science, other government agencies, local executive bodies, the National Chamber of Entrepreneurs, business and industry representatives. Supervisory Boards elect university rectors who annually report on academic activities.

Boards of Directors operate in private universities or in universities that have 50% state ownership. Boards of Directors include members of parliament, representatives of the Astana International Financial Centre (AIFC), the National Chamber of Entrepreneurs and representatives of foreign universities.

[2] After the visit by the Review Team, the roll-out of the per student funding formula was postponed to 2018 and limited to grades 10 and 11, as a result of pitfalls identified in evaluating the pilot. The analysis in this report concerns the plans for the introduction of the per student funding formula as of April 2014, when the Review Team visited Kazakhstan (OECD, 2014[77]).

[3] Unweighted average for the OECD, workers aged 15-64, over 2007-2015 (or latest year available).

[4] Defined as employees who do not pay social contributions and the self-employed whose business is not registered (Agency of Statistics of the Republic of Kazakhstan). As reported by the 2017 OECD publication *Building Inclusive Labour Markets in Kazakhstan: Youth, Older Workers and People with Disabilities*.

[5] Low pay is defined by the OECD and the ILO as pay below two-thirds of median earnings.

[6] As reported by the OECD's 2017 Higher Education Review.

[7] It should be taken into account, however, that the official figures for Kazakhstan probably underestimate the actual size of the phenomenon, reflecting the relatively narrow range of eligibility criteria used to qualify for disability.

[8] Almost 70% of people with disabilities are in the mild or moderate disability group with remaining work capacities (OECD, 2017[3]).

[9] Full-time work consists of 40 hours per week for people with mild disabilities, or 36 hours per week for people with moderate or severe disability.

[10] MSEs evaluating commissions cover as many as 15 000 to 20 000 clients in several regions, and is increasing (G-Global, 2013[71]).

[11] Unemployment rates for the above-65s in Kazakhstan are, of course, very low, since those not in employment typically leave the labour force altogether (OECD, 2017[3]).

[12] As presented in the OECD's 2017 publication *Building Inclusive Labour markets in Kazakhstan: A Focus on Youth, Older Workers and People with Disabilities.*

[13] Percentage of the population aged 15 and over with the ability to both read and write and make simple arithmetic calculations (World Economic Forum, 2017[107]).

[14] The percentage refers to students aged 7-10 years old studying at this level, as a percentage of the total population of Kazakhstan within this age group. Sources are Committee of Statistics (January 2018) and a report by the Committee of Statistics "Men and Women of Kazakhstan, 2012-2016".

[15] The WEF 2017 Gender Gap Report provided the following statistics and used the following methodology:

- *Female, male literacy rate (%).* Percentage of the population aged 15 and over with the ability to both read and write and make simple arithmetic calculations. Source: UNESCO Institute for Statistics, Education Indicators, 2016 or latest available data (accessed September 2017). When not available, data is sourced from United Nations Development Programme, Human Development Reports 2009, most recent year available between 1997 and 2007.
- *Female, male net primary education enrolment rate (%) (87.1% for females; 87.6% for males).* Percentage of girls and boys in the official primary school age range who are enrolled in either primary or secondary education. Source: UNESCO, Institute for Statistics, Education Indicators, 2016 or latest available data (accessed September 2017).
- *Female, male net secondary education enrolment rate (%) (93.5% for females; 91.8% for males).* Percentage of girls and boys in the official age range for secondary education who are enrolled in secondary education. Source: UNESCO, Institute for Statistics, Education Indicators, 2016 or latest available data (accessed September 2017).
- *Female, male tertiary gross enrolment ratio (%) (51.3% for females; 41.4% for males).* Total enrolment in tertiary education, regardless of age, expressed as a percentage of the most recent five-year age cohort that has left secondary school. Tertiary gross enrolment data should be examined within the context of a country structure regarding military service as well as propensity of students to seek education abroad. Source: UNESCO, Institute for Statistics, Education Indicators, 2016 or latest available data (accessed September 2017).

[16] According to the WEF 2017 Gender Gap Report, the share is higher, at 74.4% for women and 82.6% for men (World Economic Forum, 2017[106]). Female, male labour force participation rate, age 15-64 (%) measures the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. Labour force data doesn't take into account workers employed abroad. The dataset includes data as reported and ILO estimates for missing data. Source: ILOSTAT, Modelled Estimates, Labour force participation rate by sex and age, 2016 or latest available data (accessed September 2017).

[17] Between 2006 and 2016, the wage gap decreased from 38% to 33% (OECD, 2016).

[18] The OECD Review of Gender Policy Delivery in Kazakhstan provides slightly different figures, at 55% of all judges but only 36.4% of Supreme Court judges, and only 8.5% of the chairpersons in courts and court collegiums (OECD, 2017[19]).

# CHAPTER 6

# Ways forward

*This chapter considers a number of cross-cutting themes that emerge from the previous chapters. These largely concern the institutional requirements needed for successful and lasting reforms: effective capacity building, robust data systems, policy coherence, stakeholder engagement, monitoring and evaluation, and continuation of international co-operation. These issues are relevant for all the policy domains considered here, they require co-ordination among various government actors and levels of public authority, and they can take a long time to develop. However, they must be addressed if Kazakhstan is to improve policy making and competitiveness over the long term. The chapter also shows how the OECD and Kazakhstan can further deepen their co-operation in working together to address these challenges.*

# 6. WAYS FORWARD

Kazakhstan is actively pursuing policies to improve its business environment and competitiveness across a range of policy domains, in pursuit of its ambition to join the ranks of the 30 most developed countries by 2050. Much of the OECD work reviewed in this volume is oriented to that end, and some of it is already reflected not only in policy strategies and programmes but also in concrete actions taken in such areas as investment policy and public governance. A detailed National Roadmap for action summarises various policy review recommendations.

With so many policy actions across such different policy areas, it is important to not just prioritise them, but to provide the right institutional support. In particular, several cross-cutting issues have emerged repeatedly in this report and in other Kazakhstan Country Programme outputs: the need for effective capacity building, robust data systems, policy coherence, better stakeholder engagement, monitoring and evaluation, and continued international co-operation. Making progress with respect to these priorities will strengthen reform efforts across all areas of public policy. Better policies will enhance the competitiveness of Kazakhstan's economy and the well-being of its citizens.

This chapter begins by looking at how the Kazakhstan Country Programme (KCP) recommendations are already being reflected in policy, highlighting how to increase their impact further. It then discusses each of the institutional requirements listed above in turn, looking at their importance for Kazakhstan's development and at good international practices. It assesses the tools at the disposal of the OECD to support Kazakhstan in making progress on these cross-cutting issues. Finally, the chapter closes off with a discussion of the ways in which international co-operation in support of Kazakhstan's reforms can be expanded and made more beneficial.

## 6.1. Continuing to deliver on the implementation of the KCP

***The Country Programme is already shaping policy***

The government has recently prepared a National Roadmap for action to ensure that the work done in the first phase of the Country Programme results in tangible reform progress. The Roadmap is the main vehicle for monitoring and assessing the implementation of 535 Country Programme recommendations. It identifies the state bodies or organisations responsible for implementing recommendations from 11 OECD reviews, specifying the issue, the recommendation, the action proposed, the agency responsible for implementation, and the deadlines and expected outcomes. Many of the proposed actions involve legislative amendments, and the deadlines range from late 2017 to 2018. Some of the recommendations are already being implemented.

Some recommendations are also reflected in Kazakhstan's key strategic documents, such as, the National Plan "100 Concrete Steps to Realise Five Institutional Reforms", initiated by the Head of State; the new Strategic Development Plan until 2025; the Concept on Family and Gender Policy for 2030; and the State Programme for the Development of the Agro-Industrial Complex for 2017-2021.

The Ministry of National Economy reported on the implementation of recommendations from several OECD policy reviews in February 2017.

- In line with the Functional Review, the government has adopted several new laws, set up open government platforms, modernised the System of Performance Assessment of Government Agencies, created a Commission on the Performance Assessment of Government Agencies, and redistributed some government functions.
- With the Law on State Service of November 2015, Kazakhstan is already taking steps to meet the OECD recommendations on public governance. The law is intended to increase ministries' capacity and autonomy, to streamline the functions and roles of central agencies, and to encourage transparency and involvement of clients and citizens in policy making, monitoring and assessment.
- In the field of urban policy, the Ministry of National Economy reported new legislation on self-government, increased participation of local communities in discussions and the delegation of several types of taxes directly to local governments.
- Kazakhstan has undertaken some legislative changes aimed at promoting public sector integrity, set up a special monitoring group for evaluating the implementation of the anti-corruption strategy, strengthened tools for anti-corruption monitoring, analysis and identification of corruption risks, published an annual report on combating corruption, established an institute of procedural prosecutors on corruption cases, and broadened access to legal statistics for civil society and other stakeholders.
- In line with the Multidimensional Country Review's recommendations on privatisation, Kazakhstan adopted a comprehensive privatisation plan for 2016-2020 and updated the list of entities subject to privatisation.
- In response to the SME and Entrepreneurship Policy Review, Kazakhstan has introduced a Business Ombudsman in the Entrepreneurial Code and a Programme on Development of Productive Employment and Large-scale Entrepreneurship for 2017-2021.
- Kazakhstan has taken many actions in line with the OECD Investment Policy Review, such as the creation of the Investment Ombudsman mechanism, the creation of an Investment Board under the Supreme Court, revision of corporate governance and state participation in the private sector, and the liberalisation of investment regimes in some sectors. With a few exceptions, Kazakhstan's economic sectors are now almost free from foreign ownership limitations, and its performance on the FDI Regulatory Restrictiveness Index is gradually getting closer to OECD levels, as mentioned in Chapter 3 of this report. The Ministry for Investments and Development is establishing a one-stop shop service for investors in all regions.
- One example of innovation policy in action is the establishment of 16 commercialisation offices , three technology parks and four business incubators. For education policy, the academic autonomy of universities' bachelor degrees, master's degrees and PhDs increased, and a national model of accreditation of higher education institutions was introduced. Kazakhstan's new Law on

Commercialisation of Results of Scientific and Technical Activities, signed on 12 November 2015, gives researchers an opportunity to obtain financial benefits from their contributions to industry.

- Kazakhstan has begun developing "green growth" indicators, and plans to introduce 16 in 2017-2018. In terms of promoting green growth and low-carbon development, Kazakhstan has developed a "green" public investments model to reduce air pollution in the public transport sector.

***Prioritisation of efforts deserves more consideration***

Effective implementation of structural reforms is one of the most challenging undertakings not only for OECD partner countries but also some of the most advanced OECD economies. More often than not, first-best policy recommendations fall short of delivering the desired outcomes due to, *inter alia*, limited administrative capacity, fragmentation and complexity of governance frameworks, inadequate decision-making structures, and poor processes and organisational culture.

In implementing the recommendations of the joint work with the OECD, specific attention should be paid to providing sufficient time for well thought-out changes, consulting relevant stakeholders, and following up any legal action through with monitoring of implementation, accompanied by appropriate financial and human resources. Kazakhstan has made impressive strides in improving its policy processes and implementation capacities over the years, but the ambitions of its reform agenda are such that more must be done. As regards the KCP, in particular, the large number of recommendations means that it is critical to pay attention to the prioritisation and sequencing of actions, so as to avoid dissipation of efforts and resources. No government can do everything at once; often, the hardest choices concern not what to do, but what to do *first.*

***Several cross-cutting issues should be addressed***

The KCP has identified sector-specific challenges and recommendations through close collaboration with ministries and other institutions in Kazakhstan. However, individual reforms in specific domains will achieve far less without concurrent efforts to improve the broader institutional environment. Throughout the co-operation with the OECD, six cross-cutting issues have emerged as the most salient to achieving lasting progress:

- policy action must be accompanied by relevant capacity building at various levels (individual, institutional and societal), to support proper implementation and sustainable change;
- data availability and quality should be improved for more targeted action in specific areas and for better monitoring and evaluation of policy interventions;
- stakeholder engagement is essential for well-founded policy proposals, their legitimacy and improvement;
- policy actions must be well co-ordinated for effective implementation and allocation of resources; and
- continuous monitoring and evaluation are important for understanding progress, identifying bottlenecks and adjusting implementation.

Sustaining co-operation on these interconnected issues will contribute positively to already ongoing dynamic work between Kazakhstan and the OECD, other international organisations and other countries for mutual peer learning.

## 6.2. Pursuing efforts to build capacity for multi-level governance

***The OECD is already supporting capacity development***

While the term "capacity" can encompass a large number of policies, institutions, and competencies, Mizell and Allain-Dupré (2013[108]), note that "capacity is unique to the object being studied, so it should be defined as the capacity to do something specific" (Hall, 2008[109]). Here, it refers to the ability to adhere to good practices in terms of institutional set-up, technical capabilities, financial resources and policy processes and practices at different stages of the policy cycle.

The OECD provides a variety of resources for capacity building, including through technical committees, dialogue platforms such as the OECD Week, policy reviews that compare country experiences and give recommendations, capacity building seminars and, in some domains, dedicated trainings on specific issues (e.g., tax administration and anti-corruption law enforcement).

Kazakhstan is regularly involved in capacity building with OECD experts through the various reviews and projects in which it participates, in particular within the framework of the KCP. More than 40 publications and reports, across a number of policy areas have been issued. Kazakhstan has also sent several staff on loan to work in the OECD, further improving the knowledge of OECD instruments within the public administration. To date, Kazakhstan is a Participant or Associate in seven OECD bodies, and is a Member in other OECD initiatives.[1]

Kazakhstan also participates in the Anti-Corruption Framework for Eastern Europe and Central Asia (ACN), the OECD Eurasia Competitiveness Programme, the GREEN Action Programme, the Support for Improvement in Governance and Management (SIGMA) programme, the Global Forum on Agriculture (GFA), and the Global Forum on Transparency and Exchange of Information for Tax Purposes (GFTEOI). Kazakhstan was the regional co-chair of the OECD Central Asia Initiative during 2013-16, and it currently serves as co-chair of the Green Action Programme and it co-chairs with Chile the Development Centre work on Revenue Spending and Stabilisation Funds of the Policy Dialogue on Natural Resource-based Development (PD-NR).

While continuing to engage in mutual learning with experts from various OECD countries, Kazakhstan should ensure that good practices learnt can be well-documented and disseminated throughout the various levels of the public administration, including at local levels. This should apply to all other capacity building activities undertaken with other international organisations.

***Individual, organisational and societal levels must be addressed***

Capacity development should take place at many different levels, but three of the most important are: individual, organisational and societal (often referred to as the enabling environment), which are interrelated (OECD, 2012[110]). As seen in previous chapters, several policy areas in Kazakhstan would benefit from capacity building at all these levels. For example, in the area of education, Kazakhstan would benefit from building individual capacity of the faculty including teachers. At organisational level, it can enhance the design of curricula and the system for forecasting education needs. And at the societal level, Kazakhstan can support the presence of opportunities for professional development of faculty.

A successful approach to developing capacity is likely to involve all three of these levels, because a narrow approach is unlikely to have a broad impact (Mizell and Allain-Dupré, 2013[108]). It is vitally important to make sure that there are no systemic, political or other external obstacles that constrain the strengthening and development of either organisations and institutions or the individuals that work in them (OECD, 2012[111]).

Individual capacity building consists of training and retraining of the population, for example, in technical fields and in general areas such as leadership and management. The capacity of individuals is crucial, but will not necessarily lead to an increase in the capacity of an organisation or the society as a whole to fulfil its functions. Training individuals is not enough.

Organisational capacity building applies to available organisational and national structures, practices and processes that facilitate the achievement of corporate/national objectives. It involves the development of human resources but also equipment and management systems, practices, laws and customs (Abdul and Edino, 2014[112]). Societal capacity building supports civil service officials, women's associations, and many others, to support their own capacity development.

In some policy areas, a fourth policy level can be added, for example, in education and public services: system level (supporting system level actors such as policy makers and teacher unions to enable them to design/implement/evaluate policies) (OECD, 2012[110]). Capacity building can take place vertically, among the various levels of government, and horizontally on the same level (OECD, 2012[110]).

Addressed in such general terms, this may sound rather abstract. The critical point is that in any area where serious reforms are contemplated, an assessment of existing – and missing – capacities is needed. This is a crucial part of the process of reform sequencing, lest reform initiatives that are in principle correct in direction but still too ambitious for the context lead to failure.

***Understanding context is paramount for a careful needs assessment***

Such an assessment of capacities and needs requires expanded analysis that includes multi-level governance and political economy considerations. Surveys and feedback mechanisms can be useful for this purpose. Local governments should be able to easily gather and transmit such information to other levels of government, as they are more aware of the local realities (OECD, 2012[110]). The objectives of capacity building should be clear to both the providers and the beneficiaries (UNEP, 2006[113]).

The tools used will depend on the specific objectives of the capacity building, the audience and the institutional context. This requires a comprehensive evaluation of where authority lies in the specific policy domain (Mizell and Allain-Dupré, 2013[108]). Pilot initiatives can be a good way of engaging stakeholders in learning by doing, as a result of which successes and challenges can be shared. Formal guidance documents can be useful for enhancing technical capacity. Peer review is another tool. Consultants or expert organisations can build the knowledge and skills when the skills are not found in-house, and an appropriate knowledge transfer needs to be ensured (Mizell and Allain-Dupré, 2013[108]). It is important to have in place mechanisms for transferring the skills from those who receive capacity building to others.

The US "Strong Cities, Strong Communities" initiative, for example, describes how federal level agencies provide support to distressed cities by sharing expertise and using a variety of methods in a systematic way (Box 6.1).

**Box 6.1. US "Strong Cities, Strong Communities" initiative**

The US "Strong Cities, Strong Communities" initiative brings together all 19 federal agencies to provide technical assistance and support for distressed cities. It is intended to change the way that federal agencies work with local governments, cutting red tape and reducing the time it takes to achieve results "on the ground". It was launched in six pilot cities in 2011. The assistance to local governments consists of:

- Community Solutions Teams (federal employees from several agencies are placed full- and part-time in the pilot cities to work directly with city staff and can request support);
- A competitive fellowship programme (for mid-term professionals to serve multi-year terms in local government positions);
- SC2 Challenge competitive grant programme (expert teams competing to provide each city with a comprehensive economic development plan);
- SC2 National Resource Network (SC2 Network; brings together public and private resources to provide US cities, towns and regions with one-stop access to national experts and federal resources).

*Source*: (Mizell and Allain-Dupré, 2013[108]).

## 6.3. Enhancing data availability and quality

***A coherent national strategy for statistics should be developed***

Reliable baseline data are necessary for defining actionable goals and indicators, as well as for monitoring and measuring policy-related achievements. More could be done in Kazakhstan to improve the provision of quality statistical information in line with international standards and make a vital contribution to the development of both the state and society.

For example, as mentioned in Chapter 4, Kazakhstan would benefit from introducing green growth indicators and a national database for measuring progress to identify necessary conditions for green growth. Similarly, as highlighted in Chapter 5, availability of data on student learning and the labour market outcomes of students could help Kazakhstan to get close to international standards. The scope and depth of gender-disaggregated statistics are also insufficient, while data-collecting and producing bodies are not well co-ordinated. In addition to these specific examples, Kazakhstan should in general improve data collection at both national and local levels, including sector-specific data, and make sure they are up to date. Moreover, it should ensure that available data is effectively used in policy making.

In other countries, National Strategies for the Development of Statistics (NSDSs) have been recognised as a useful tool for improving statistical systems (Eurostat, 2017[105]). Such strategies provide a vision of statistics development for several years, a framework for assessing user needs and resource allocation (Paris21, 2004[114]). Their development should begin with an examination of the current status of statistics and data needs, before proceeding to setting out a vision and an action plan for implementation. It is essential to ensure that appropriate financial and human resources are allocated to the statistical agency to carry out a national strategy for the development of statistics. It is important to keep in mind who the users of the data are and to have in place regular feedback mechanisms (Paris21, 2004[114]). Box 6.2 presents information on the Quality Assurance Framework of Statistics Canada, which has helped shape the OECD's own statistics strategy.

***The adoption of OECD global statistics should be extended***

The OECD is set on ensuring the highest quality of its internal statistics strategy and its data, which often serve as the basis of cross-country studies and policy discussions among members (OECD, 2012[115]). Kazakhstan is already included in some OECD statistical databases and instruments, including such high-profile indicators as producer and consumer support estimates in agriculture, export restrictions on raw material, trade facilitation indicators, social and welfare statistics on pension and labour migration, and transport-generated emissions. It has participated in the Partnership in Statistics for Development in the 21st century (PARIS21) since 2015. Founded in 1999, PARIS21 provides a forum to promote, influence and facilitate statistical capacity development. It unites national, regional and international statisticians, analysts, policymakers, development professionals and other users of statistics (Paris21, 2017[116]).

In April 2014, a formal Letter of Intent on Statistics between the OECD Statistics Directorate and the Agency of the Republic of Kazakhstan for Statistics was signed, setting out areas of co-operation between the two organisations. In July 2016, the OECD Council agreed to invite Kazakhstan to become a Participant in the Committee on Statistics and Statistical Policy (CSSP). Moreover, the OECD has already helped Kazakhstan in developing its statistical systems, particularly in the areas of National Accounts, Green Growth and Sustainable Development Indicators, Environmental Economic Accounts and National Health Accounts.

Currently, further co-operation on statistics with Kazakhstan is being considered, in particular the contribution of Kazakhstan to the OECD – WTO Trade in Value-Added (TiVA) initiative, which considers the value added by each country in the production of goods and services that are consumed worldwide. TiVA indicators are designed to better inform policy makers by providing new insights into the commercial relations between nations. The goods and services sold are composed of inputs from various countries around the world. However, the flows of goods and services within global production chains are not always reflected in conventional measures of international trade.

**Box 6.2. Quality Assurance Framework (QAF) of Statistics Canada**

The Quality Assurance Framework (QAF) of Statistics Canada describes strategies in place for the effective quality management of all its statistical programmes and organisational initiatives. The role of Statistics Canada is to provide credible and relevant statistical information to Canadians and to inform policy making.

The QAF first appeared in 1997. It was inspired by the generic National Quality Assurance Framework template developed by the United Nations Statistics Division Expert Group.

Statistics Canada has identified six dimensions of statistical information to define its quality and evaluate its fitness for use:

1. Relevance reflects the degree to which statistical information meets user needs;
2. Accuracy reflects the degree to which statistical information correctly describes the phenomena it was designed to measure;
3. Timeliness refers to the delay between the end of the reference period to which statistical information pertains and the date on which the information becomes available;
4. Accessibility refers to the ease with which statistical information can be obtained;
5. Coherence reflects the degree to which statistical information is logically consistent and can be brought together with information from other sources or different time periods;
6. Interpretability reflects the availability of supplementary information (metadata) necessary to understand, analyse and utilise statistical information appropriately.

An effective management tool for Statistics Canada has been to divide the process into phases, breaking it down into such steps as “specify needs”, “design”, “build”, “collect”, “process”, “analyse”, “disseminate” and “evaluate”. Statistics Canada uses multidisciplinary teams that bring together subject-matter experts and mathematical statisticians (methodologists) to ensure the effective management of quality, cost and user needs. A fundamental principle of quality assurance of Canada’s statistics is the recruitment strategy and professional development programmes. Statistics Canada has a culture of seeking new and innovative sources and methods.

*Source*: (Statistics Canada, 2017[117]).

### *Kazakhstan's participation in OECD statistical work can be beneficial*

The OECD has a statistics portal and gathers data on a variety of topics, including innovation, climate change, trade restrictiveness, education, inclusive development, investment, inequality and migration. Its statistical manuals and guidelines for various policy areas can support policy makers in their work (OECD, 2017[118]). Moreover, the OECD provides policy dialogue platforms on statistics through the OECD World Forums on Statistics, Knowledge and Policy, and Statistics Day. The first OECD legal instrument on statistics, the Recommendation of the OECD Council on Good Statistical Practice (Box 6.3), was adopted on 23 November 2015 and could serve as a guideline for Kazakhstan (OECD, 2015[119]).

The OECD is further expanding its work on statistics to look into more topics that are important for well-being and inclusion. Some of the better-known OECD initiatives are the Better Life Index (BLI), which goes beyond macroeconomic statistics to look into other aspects of human welfare. The OECD launched New Approaches to Economic Challenges Initiative, which extends statistical work into new areas to look at distributional consequences of data, for example, job quality and measuring trust (OECD, 2016[120]). The OECD is committed to further work on the multidimensional nature of well-being, including improving micro-data (OECD, 2017[121]). In addition to refining the measure of GDP, the OECD plans to measure and document the cost of protectionism and isolation of economies, including disaggregation of data to look at the most cumbersome measures. It is set on increasing the reach and depth of the analysis of Global Value Chains (GVCs), TiVA, the Services Trade Restrictiveness Index (STRI), and the Trade Facilitation Indicators (TFIs), to show the benefits and costs of open markets and the risks of protectionism. It also plans to pay particular attention to the relationship between consumption, life satistfaction and intergenerational sustainability. Other priorities for statistical work include better understanding of income disparities, technoligical divides, uneven access to finance and limited progressivity in fiscal systems. Futhermore, territorial issues including divergences between leading and lagging regions, and the urban-rural divide will receive more attention, with planned new metrics for urban and rural units. The OECD has recognised the importance of involving developing and middle-income economies in this analysis (OECD, 2017[121]). Kazakhstan's participation in these areas of work could be beneficial for both it and OECD countries, and would enrich the international debate on these topics.

**Box 6.3. Recommendation of the OECD Council on Good Statistical Practice**

1. Put in place a clear legal and institutional framework for official statistics;
2. Ensure professional independence of National Statistical Authorities;
3. Ensure adequacy of human, financial and technical resources available to the National Statistical Authorities for the production and dissemination of official statistics;
4. Protect the privacy of data providers (including individuals, households, enterprises, administrations, and all levels of government) and guarantee by law the confidentiality of the individual information provided and its use for statistical purposes only;
5. Ensure the right to access administrative sources to produce official statistics;
6. Ensure the impartiality, objectivity and transparency of official statistics, and that all users are treated equitably;
7. Employ sound methodology and commit to professional standards used in the production of official statistics;
8. Commit to the quality of statistical outputs and processes;
9. Ensure user-friendly data access and dissemination;
10. Establish responsibilities for co-ordination of statistical activities within the NSS;
11. Commit to international co-operation;
12. Encourage exploring innovative methods as well as new and alternative data sources as inputs for official statistics.

*Source*: (OECD, 2014[77]).

## 6.4. Encouraging public engagement in policy making

***Open Government should continue to be a national priority***

As discussed in Chapter 2 of this report, Kazakhstan has undergone an Open Government Review within the framework of the KCP. In May 2017, Kazakhstan adhered to the Recommendation of the Council on Regulatory Policy and Governance. Kazakhstan is already taking action to improve stakeholder involvement and transparency – through the national 2050 Strategy, the "100 Concrete Steps", various laws on access to information and on public councils, e-government and various open government platforms that are used for public consultation. Kazakhstan is encouraged to further make use of the good practices identified through these platforms to support its efforts to improve stakeholder engagement in policy making, to ensure that policies responds to clear needs and that they are well-understood.

"Inclusion" is one of the dimensions of Open Government (OECD, 2015[122]). The OECD has an Open Data portal and is now developing a new OECD

Recommendation on Open Government, which aims to help adherents design and implement successful open government reforms by identifying a clear, actionable, evidence-based, and common framework for the governance of Open Government initiatives (OECD, 2017[123]). In addition, the OECD Directorate for Public Governance has begun putting together a pilot database of stakeholder engagement by country, which includes the Grenelle Environment Forum (Box 6.4). The OECD has already provided recommendations on stakeholder engagement on specific topics, such as water governance and in regulatory policy.

***More effective public engagement should improve policy acceptance***

Yet as noted in Chapter 2, gaps remain in the implementation of this strategy. Kazakhstan still has relatively low rankings on the Open Government Index and the Voice and Accountability Index. Non-government stakeholders, the private sector and media are not sufficiently consulted, for example, on green economy indicators or education policy. Stakeholder consultation at local level can also be strengthened. Kazakhstan is encouraged to further enhance its stakeholder consultation mechanisms. This is, of course, closely linked to the capacity-building challenges outlined above: OECD experience shows that public- and private-sector stakeholders often have to learn how to engage in real consultations, as well as to experience its benefits, before they become a part of the culture of policy-making.

Involving a broader range of stakeholders can sometimes slow things down but in most cases it will ultimately improve policy and allow for increased transparency and more open and effective implementation. The improved involvement of non-governmental stakeholders including civil society and the private sector, for example, can help create greater ownership of reform implementation and even strengthen the government's role (OECD, 2009[124]). Comprehensive stakeholder participation enhances transparency, which is important for monitoring, accountability and anti-corruption efforts. Engagement of the private sector is essential for helping the government take into account the business point of view and maintain a business-friendly environment.

***Kazakhstan could benefit from start-to-end consultations***

The engagement of stakeholders in the development of laws and regulations, and in their review, is now regular practice in the public administrations of OECD countries (OECD, 2017[37]). The government could consider the guidelines developed by the OECD in regard to public consultation and OECD good practices to better channel its efforts to include citizens in the early stage of the drafting of laws and regulations. The OECD recommends clear and simple procedures on consultation. Governments should encourage officials and citizens to become active and knowledgeable through awareness-raising campaigns and information dissemination. There must be regular training sessions for citizens and public officials about ways of participation. It is important to have in place safeguards to avoid the process from being captured by groups with special interests (OECD, 2015[122]).

The OECD recommends that the consultations should take place as early as the proposal stage and extend to evaluation stages. It is useful to make the purpose of engagement very clear, and to provide arguments in case the feedback is not adopted (OECD, 2015[122]).

**Box 6.4. Grenelle Environment Forum**

The Grenelle Environment Forum, organised by the French government in 2007 and 2012, aimed to establish a roadmap for ecology, sustainable development and planning. It followed a "five-stakeholder governance approach", setting up five collegial bodies for each of: trade unions, employers, non-governmental organisations, local authorities and public service representatives. Each collegial body included six working groups: on climate change, biodiversity, environment and health, sustainable production and consumption, environmental democracy, and environmental growth and economic instruments. The proposals were then placed on an internet platform for open consultation with the public, and were discussed at public regional meetings and in the Parliament. Finally, four roundtables of negotiations took place between the representatives of the collegial bodies.

The government took several measures as a result. The law Grenelle 1 was adopted in June 2009 almost unanimously and identified the main courses of action; a 2009 finance law set out the funding; and Grenelle 2 law was passed in 2010. In the end, the Grenelle Environment Forum led to almost 450 legal provisions and about 70 tax provisions in total.

This example is considered successful for a number of reasons. First of all, it led to concrete measures. It involved a wide variety of stakeholders, building awareness on environmental issues. The Forum kick-started the practice of stakeholder engagement on environmental policy. In addition, it brought a national-level debate to local level through the regional seminars. The Forum led to the institutionalisation of multi-stakeholder consultation processes on environmental matters, for example, through the National Council of Ecological Transition and annual environmental conferences. Finally, it was a model for similar multi-stakeholder consultation processes, such as the "Grenelle of the Sea" process between 2009 and 2012, the Grenelle process on social integration in 2007, and the Grenelle process on radio broadcasting in 2009.

*Source*: (OECD, 2017[125]).

## 6.5. Co-ordinating the policy process

### *Co-ordination of various stakeholders would be welcome*

This report has noted that Kazakhstan is experiencing co-ordination problems across the board. For example, cities and regions' lack of horizontal co-ordination mechanisms prevents them from realising economies of scale, and platforms for sharing best practices and initiatives among the regions need to be developed. Better co-ordination is needed in particular for SME policy, the innovation system, green growth, gender policy, and in the implementation of government programmes such as the Comprehensive Privatisation Plan for 2016-2020 and the Action Plan for Development of Alternative and Renewable Energy for 2013-2020.

In implementing the recommendations of the OECD Kazakhstan Country Programme, Kazakhstan needs to ensure effective policy co-ordination among the various ministries and levels of government. Co-ordinated support for policy reform requires the government to harmonise activities and agendas across many bodies,

policy domains, stakeholders and levels of government as it plans, implements and reviews policy objectives.

Good co-ordination across government bodies will help align policy goals around government priorities. A well co-ordinated government can have more "strategic agility", as it is more able to effectively identify challenges, and to direct human and financial resources appropriately to address them (OECD, 2015[126]). This will lead to more effective implementation and a more effective use of budget. Co-ordination is important for effective government functioning, as it aids in avoiding duplication, inefficiencies and contradictory effects of policy (OECD, 2017[127]). It is important to note, however, that co-ordination does not mean more central control or a reduction in the autonomy of ministries vis-à-vis the centre of government; rather, it ensures that they work together to achieve common results (SIGMA Initiative, 2009[128]).

***A clear strategy and division of responsibilities are essential***

For effective co-ordination, it helps to have a clear vision, strategy and work programme with priorities that are understood by the ministries and various other stakeholders implementing them (OECD, 2015[126]). The roles and mandates of various ministries and stakeholders should be clearly identified and understood, with care taken to avoid overlap (OECD Office of the Secretary-General, 2012[129]). For this to be achieved, it is important to be aware of the various actors involved in the specific area and their roles, including non-state actors – the private sector, civil society or donors (OECD, 2016[130]).

It is also helpful to keep in mind the roles of various government agencies and sources of finance. Both formal and informal mechanisms should be leveraged to encourage effective co-ordination among the various ministries and levels of government (OECD Office of the Secretary-General, 2012[129]). In case of disagreements between ministries, these should be settled before the government meets if at all possible. Ideally, ministries should be able to consult each other on draft laws and policy papers to ensure that they do not conflict with each other (SIGMA Initiative, 2009[128]). On a broader scale, it is advisable to foster a culture of co-operation and remove the "silo mentality" (OECD, 2015[126]). Monitoring and evaluation of co-ordination is necessary to identify and remove obstacles that impede it. Box 6.5 includes an example of co-ordination mechanisms for implementing integrity policies.

The Centre of Government (CoG) has an increasingly important role in policy co-ordination across OECD countries, by defining strategic priorities and developing cross-departmental action plans. There is also a trend of it being more involved with delivery units to implement horizontal policies (OECD, 2017[127]). In cases where the Centre of Government is engaged in policy co-ordination, it will benefit from a clear mandate and high-level political support.

**Box 6.5. OECD co-ordination mechanisms for implementing integrity policies**

Public integrity systems comprise a multitude of actors and engage both central and subnational administrations, making good co-ordination key.

Many integrity systems are decentralised, with approximately 71% of countries able to determine their integrity policies, but they are often co-ordinated at central level. Only three countries do not have in place any co-ordination mechanism. The most important forms of support are: guidance by a central government integrity body (9 countries); regular meetings in a specific integrity committee or commission (11 countries); involvement of state and local governments in the design of policies themselves (7 countries).

Some countries use more formal approaches to co-ordination, for example, Estonia, Japan, Mexico and New Zealand use legal agreements or contracts between national and sub-national governments.

The tools most frequently used to co-ordinate line ministries and departments are normative requirements (used in 29 countries), guidance by a central government body or unit (22 countries), and integrity units in line ministries (17 countries). For example, in Austria, Canada and Germany, ethics officers and contacts in line ministries have established networks for exchanging good practices and seeking advice.

*Source*: (OECD, 2017[127]).

### *The OECD's work on policy coherence for development can provide useful guidelines*

In recognition of the importance of policy co-ordination, and with the goal of supporting achievement of SDG Target 17.14 to "enhance policy coherence for sustainable development", the OECD has created a multi-stakeholder partnership for enhancing Policy Coherence for Sustainable Development (PCSD).

A report published in May 2017 on PCSD seeks to inform policy makers by showing ways in which policy coherence can support implementation, using OECD country experience in implementing SDGs. It provides eight building blocks of policy coherence and a "coherence monitor".

The eight building blocks have been designed on the basis of the principles of the 2030 Agenda, of lessons learned and of good practices collected by the OECD over the years. They are:

- Political commitment and leadership – to guide whole-of-government action and translate commitment on SDGs into concrete and coherent measures at the local, national and international levels.
- Integrated approaches to implementation – to consider systematically inter-linkages between economic, social and environmental policy areas as well as ensure consistency with international engagement before making decisions.
- Intergenerational timeframe – to make informed choices about sustainable development considering the long-term impact of policy decisions on the well-being of future generations.

- Analyses and assessments of potential policy effects – to provide evidence on the potential negative or positive impacts on the well-being of people at the domestic level and in other countries, and inform decision-making.
- Policy and institutional coordination – to resolve conflicts of interest or inconsistencies between priorities and policies.
- Local and regional involvement – to deliver the economic, social and environmental transformation needed for achieving the SDGs and ensure that no one is left behind.
- Stakeholder participation – to make sure that SDGs are owned by people, diverse actions are aligned, and resources and knowledge for sustainable development mobilised.
- Monitoring and reporting – to better understand where there has been progress, or lack of it and why, and where further action is needed.

These building blocks, even those applying specifically to development policy, are also applicable to general policy co-ordination and could provide useful guidelines to Kazakhstan.

## 6.6. Monitoring and evaluation

***Ex-ante and ex-post appraisal will be critical***

Continuous monitoring and systematic collection of data on specified indicators can show progress and whether objectives are being achieved using allocated funds. Evaluation is the systematic and objective assessment of an ongoing or completed project, programme or policy, which looks at its design, implementation and results. It can be used to determine the worth or significance of an activity, policy or programme (OECD, 2011[131]). It is important to keep in mind that a monitoring and evaluation (M&E) system is more than the data systems used to track spending and outputs. Rather, it refers to regular and systematic collection *and use* of M&E information at various levels, be it an agency or the entire government (World Bank, 2010[132]).

Previous chapters in this volume have stressed the importance of improved monitoring and evaluation in a number of domains (innovation, research policy, green economy, the labour market and gender policy). Well-designed monitoring activities will allow Kazakhstan to keep track of the implementation of recommendations and achievements to encourage better performance, adjust activities as needed and forecast the most likely medium-term and long-term outcomes.

Monitoring and evaluation are also important for keeping governments accountable to citizens and other stakeholders. In addition, M&E can help governments keep track of government funding and identify potential signs of corruption (World Bank, 2010[132]).

Kazakhstan already participates in a few OECD policy monitoring instruments. For example, Kazakhstan is regularly monitored within the framework of the OECD Istanbul Anti-corruption Action Plan of the Anti-Corruption Network for Eastern Europe and Central Asia (ACN). The fourth round of monitoring took place in September 2017. The OECD published a report on Monitoring and Evaluation of

Agricultural Policies in Kazakhstan in 2016. There is also an annual publication on Agricultural Policy Monitoring and Evaluation in which Kazakhstan participates.

However, additional participation can be considered, as the OECD explores monitoring and evaluation on a variety of topics, including in gender policies and investment promotion. The Organisation also conducts monitoring and evaluation of its own through the various working groups and technical committees.

***Strong political support and the right incentives should remain a priority***

Putting in place a successful monitoring and evaluation system takes a long time and is challenging. It is especially difficult for emerging economies, which may not yet have in place longer-term strategic, economic, investment and policy planning (World Bank, 2004[133]). High-level officials should be engaged in the monitoring and evaluation system and have the political will to sustain it. A common practice is to have a central ministry take a leading role in the M&E system, and to use the M&E system for the budget process (World Bank, 2010[132]).

This priority intersects those described earlier in this chapter, inasmuch as good data and indicators are essential for effective monitoring and evaluation, and so are effective mechanisms for engaging other societal actors in the evaluation policy effectiveness. Capacity building is required for effective M&E, including training for data collection, monitoring methods and analysis (World Bank, 2004[133]).

Incentives promoting the *use* (and not only the generation) of performance information are also needed, lest M&E be reduced to a record-keeping exercise. Sanctions for not using monitoring and evaluation can also be effective in this regard.

It is important to tailor the reporting to the audience (Lahey, 2009[134]). Successful M&E systems need to be entrenched so as to remain functional during changes of administration (World Bank, 2010[132]). M&E systems vary among countries, and the usage of tools depends on availability of data and specific data demands. Finally, the M&E system itself should be monitored to ensure that it is working smoothly. Box 6.6 describes Australia's Monitoring and Evaluation system, which is widely considered to be among the best in the OECD area.

**Box 6.6. The Monitoring and Evaluation System in Australia**

Australia's Monitoring and Evaluation system of 1987-1997 is considered to be one of the most successful in the world. Some observers note that programme evaluation in Australia has been applied more extensively and systematically than in any other country. The M&E system was used for budget analysis, budget decision making by the Cabinet and policy advice. Almost all budget bids require some form of evaluation as justification. The government developed the M&E strategy over 1987-1991. It began with a 1988 diagnostic review of evaluation practices in departments, and of the overall level of evaluation activity in government. The M&E system was led by Australia's Department of Finance (DoF). The key motivation for Australia's M&E system was the desire to obtain greater value for money from government spending underpinned by three main components:

- formal evaluation and planning through formal portfolio evaluation plans (PEPs), which were submitted to the Minister of Finance every three years. They indicated which programmes and sub-programmes would need to be evaluated and when;
- requirement for every programme to be evaluated at least once every three-five years. Usually, this applied to a sub-programme rather than a comprehensive programme evaluation; and
- reviews of each ministry's programme objectives and performance reporting. The reviews were conducted by each ministry and the finance department on a rolling basis over a three-year period.

The system's success is attributable to several factors. Australia's public sector had a strong human, institutional and management capacity. Its budgetary, accounting and financial systems were well-developed. The M&E system had strong political support. The Department of Finance had a central role in making the system work, by having appropriate incentives in place and by promoting the benefits of evaluations to various departments. Finally, the finance department, other central departments and sector departments conducted evaluations in a collaborative manner.

*Sources*: (UNPAN, 2017[135]); (World Bank, 2004[133]); (World Bank, 2011[136]).

## 6.7. The challenge of reform and the role of the OECD

### *The OECD can facilitate cross-country policy learning*

The experiences reviewed in connection with the KCP confirm that the case for reform is strengthened by the availability of internationally comparable data and analysis: while simple policy transfer from one country to another is rarely possible or desirable, the scope for cross-country learning is enormous and is apparent in much of the OECD's work with Kazakhstan. In a number of policy domains, the OECD is in a strong position to provide these. It can also promote awareness of emerging policy challenges, stimulating evidence collection and knowledge sharing, as well as providing potential tools for reform. The evidence suggests that cross-national studies and international policy dialogue can speed up the process of "policy learning", enabling governments to learn from one another and thus avoid repeating one another's policy errors. OECD work on disability benefit policies since the early

1990s well illustrates the potential of this type of cross-national exchange to make policy reform easier (Prinz and Tompson, 2009[137]).

Such learning is particularly valuable at a time when governments confront a range of global challenges, from ageing to the environment that may take decades to tackle. Moreover, these challenges are constantly changing. Even the most successful reform innovation is rarely final: as economic development proceeds, new challenges are constantly being thrown up, requiring new solutions. Institutions that used to function adequately no longer do so in the new circumstances and need to be reformed. So reform is necessarily an ongoing process and not a matter of "getting it right" once and for all. And that implies an ongoing discussion within and across countries about how to tackle emerging challenges.

The benefits to Kazakhstan of participating in this dialogue are increasingly clear, but it is also the case that, as it grows and develops, and as the sophistication of its policies increases, it stands to make an ever more important contribution to such debates. In fields such as e-government and the management of resource rents, it already has important experiences to share with even the most advanced countries, to say nothing of its role as a reform leader in its region.

The involvement of national officials and experts in OECD discussions, in turn, helps to create and sustain "communities of practice" at the international level, networks of experts who then exchange ideas and experiences, and influence policy debates within their respective countries by framing both policy problems and potential solutions for decision makers (Haas, 1992[138]). It is extraordinarily difficult to quantify the value of such exchanges, but experience suggests that a great deal of the value of Kazakhstan's engagement with OECD committees stems from the formation of such networks of practitioners, which provide peer support for reform that extends well beyond the confines of formal committee or working group meetings. As of now, Kazakhstan is an Associate or Participant in seven OECD bodies, meaning that it has a permanent status in them (as opposed to committee meetings or Working Parties that it attends only by invitation, on a meeting by meeting basis).

As shared understandings of what constitutes "best practice" emerge in a given domain, such networks help to diffuse them, bringing about a degree of policy convergence. This means that the impact of engagement with the OECD on national policies is often diffuse and difficult to pin down with precision. However, the evidence suggests that it can be very effective over time, not least because it is more likely to lead to local ownership of reform initiatives (OECD, 2010[139]). This, in turn, increases the likelihood that cross-national learning will be adapted to local circumstances when policies are devised. It also adds to the legitimacy of reforms.

***Peer review and benchmarking can stimulate reform debates***

Peer review of macroeconomic and structural policies has long been at the heart of OECD work, and developments since the global crisis almost a decade ago have underscored its importance as a mechanism for cross-national learning and policy dialogue. The events of 2008–09 demonstrated more starkly than ever how fuzzy the line between the domestic and international spheres has become in a globalised world. Now more than ever, governments know that their neighbours' policy errors can cost them dearly. Indeed, some countries that had pursued responsible macroeconomic and structural policies found themselves overwhelmed by a crisis not of their own making. This experience highlighted, among other things, the potential

value of peer review of economic policies. If the domestic policies of a state's trading partners can affect it so directly, then they are of more than just academic interest.

While OECD recommendations and data are cited frequently in some national-level policy debates, the evidence suggests that the impact of OECD work is most apparent when countries see their performance or policies in comparative context: benchmarking often signals to electorates or elites that institutions or situations that they may have come to regard as normal may be quite unusual by international standards and that outcomes they may regard as satisfactory are unimpressive when seen in an international context. The impact of PISA scores on education reform debates in many OECD countries and in Kazakhstan provides a vivid illustration of this point (Wurzburg, 2010[140]). Appropriate benchmarking, where possible, can act as a powerful stimulus to domestic reform debate, but benchmarking exercises should be undertaken with great care, since their value and credibility depend on the quality of the underlying data and analysis.

The OECD can also play a key role in helping countries meet one of the reform challenges implicit in the findings reported earlier: the challenge of sustained incrementalism. One of the striking features of OECD analyses of sectoral reforms is the extent to which reform success in many domains requires commitment to a series of discrete but co-ordinated reforms over periods that are likely to exceed the lifetime of most governments. While "big bangs" may work for trade or competition reforms, they are unlikely to be suitable for most of the reform tasks facing governments in fields like health care, education, environmental protection or public governance (OECD, 2010[139]). The OECD thus has a role to play in supporting those domestic institutions that exist to help sustain coherent policy reform over extended periods. Peer reviews of policy can often help in this respect.

As a multi-dimensional organisation, the OECD is also able to bring evidence and experience from different domains together, so as to ensure that discussions of economic, social, environmental and governance issues fertilise one another, echoing the ambitious strategy of Kazakhstan to become one of the top 30 global economies, on multiple socio-economic dimensions. At a minimum, this should help ensure policy coherence – policies should not contradict one another. At times, it can do more than that, creating opportunities to identify potential complementarities among reforms, where co-ordinated pursuit of multiple mutually reinforcing reforms may increase the benefits generated by each. This is particularly important with respect to policies aimed at fostering more environmentally friendly growth, which require careful analysis from a wide range of perspectives. The breadth of the OECD's remit also puts it in a good position to contribute to the design of pension and labour-market reforms that are "in sync" with one another, so that benefit and pension reforms designed to enhance labour supply and promote longer careers are accompanied by labour-market policies that address the particular needs of older workers. This multidimensionality is a crucial consideration, owing to the need to maximise the synergies – and minimise the trade-offs – between policies designed to address immediate pressures and concerns and those focused on longer term goals.

***OECD instruments and standards can help anchor policy reforms***

As noted above, Kazakhstan has already adhered to a large and growing number of OECD instruments. The Decisions and Recommendations adopted by the OECD Council are the result of the substantive work carried out in the Organisation's

committees. They are based on in-depth analysis and reporting undertaken within the Secretariat and cover a wide range of topics from anti-corruption to environment. The end products include international norms and standards, best practices and policy guidelines. Some of them, such as the Codes of Liberalisation, date back to the beginning of the Organisation.

Most are not legally binding, but these instruments are nevertheless effective in supporting better policies, for a number of reasons. First, they carry considerable moral force, being based on a consensus among OECD members and non-member adherents and derived from substantial analysis and discussion in OECD bodies. Secondly, they are often important signals to investors and other players about a government's reform commitments. Since there is no "hard" conditionality attached to them, this is a matter of self-discipline, but many governments do see the value of being able to advertise their adoption of OECD standards in fields like corporate governance or investment policy. Thirdly, adherents implicitly accept to be held to account for their implementation (or lack thereof) of given standards. This can be in the public-political domain or in the context of formal OECD reviews. Either way, the process of adherence creates a new potential for accountability. Finally, adherents participate in the revision of the instruments to which they adhere, so the adoption of OECD principles and standards also strengthens Kazakhstan's voice in international economic governance.

## 6.8. Conclusion

The relationship between Kazakhstan and the OECD will continue to grow. The KCP has been extended until the end of 2018, with further reviews and participation in committees expected. At the same time, the interactions between Kazakhstan and various OECD Directorates are becoming more decentralised, as working relationships have been established. Kazakhstan is becoming a more visible presence in many OECD bodies.

The government has already initiated the implementation of some of the recommendations of the joint work with the OECD. It is still too soon to assess their impact, but these efforts will have to be sustained and disseminated further. Their effect will depend on the government's ability to address the cross-governmental issues addressed in this Chapter. The next years will be no less challenging than the last ones, but with a sustained commitment and courage to tackle these issues, Kazakhstan is likely to continue to strengthen its role in the global economy, building on the legacy of the current strong partnership with the OECD.

*Notes*

[1] Committee on Industry, Innovation, and Entrepreneurship; Competition Committee; Committee on Statistics and Statistical Policy; Committee for Scientific and Technological Policy; Investment Committee (Associate in enlarged session and including WP on Responsible Business Conduct); Education Policy Committee; Working Party on State Ownership and Privatisation Practices.

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# REFORMING KAZAKHSTAN
## PROGRESS, CHALLENGES AND OPPORTUNITIES

Kazakhstan has in recent years intensified its co-operation with the OECD, most notably with the launch in January 2015 of the OECD Kazakhstan Country Programme, which has encompassed co-operation on almost 20 separate projects in a wide range of policy domains. This volume presents an overview of the work done in the main areas covered by the Country Programme, assessing both progress made and the challenges ahead with respect to public governance, economic reform, green growth and social policy. It also considers the linkages between these various strands of policy, in an effort to derive cross-cutting lessons for the future and to present a more integrated understanding of Kazakhstan's reforms.